BY VOTE OF THE PEOPLE

WILLIS J. BALLINGER

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By ***WILLIS J. BALLINGER***

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A

To my Father,

Webster Ballinger,

and my Aunt,

Miriam Ballinger Berryhill,

who have given so much to me.

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ACKNOWLEDGEMENTS

This book has been in preparation for some ten years. The magnitude of the research involved, the interruptions of official duties, service overseas in the Army, and the revisions necessary to condense voluminous material within the covers of a reasonably sized volume, resulted in many delays which at times made me wonder whether I should ever finish the job.

My conclusion that free governments generally have perished by the insidious process of *by vote of the people* is, I believe, an original one. No school of liberal economic thought with which I am acquainted even touches upon this theme. Some have perceived clearly the disastrous effect of concentrating wealth upon political freedom and went so far as to predict the destruction of democracy in America if the growing concentration of wealth was not reversed. But precisely how that destruction would ensue was never explicitly stated. There were hints that force would be the instrument—a seizure of government by wealth—but that was all.

In my analysis of American capitalism I have deliberately taken the risks of being explicit when it would have been safer to deal in generalities. For those who prophesy disaster, particularly in the field of economics, it is safer to put on the mantle of Elijah, to speak from the pulpit in general terms, leaving to others the job of working out the details of reform. I felt that the crisis in American capitalism could no longer be treated by generalities. The details of reform must be served up fast if reform is to succeed. So I ventured to propose a program which attempts to emphasize the necessity for a coordinated attack on the forces which are repressing production in American capitalism. For this program, I claim no infallibility. I have emphasized in the text that the successful reform of our moribund capitalist economy should be the work of many minds sincerely interested in that objective. My sole purpose was to get the ball of reform rolling as quickly as possible by proposing something definite for consideration. Lack of space has compelled me, at a number of points, to condense discussion which deserved

more extended treatment or to avoid technical refinements which would ultimately have to be considered.

I am indebted to my father for impressing on me at an early age the interrelationship between concentrating wealth, uncapitalistic business, and undemocratic government. A close friend of the elder La Follette, he imparted to me his enthusiasm for this great American who did so much to focus national attention on this vital issue. Both as a well-known press correspondent in his youth and then as a noted lawyer who battled valiantly for many years to obtain justice for the American Indian, my father had seen at close range the sinister workings of concentrated wealth in our national life. He was my first teacher, and an able one.

I wish to remember some rare and profitable years of intellectual comradeship with the late Phillip Troup of New Haven, Connecticut, who was my first editor. Mr. Troup was one of the most widely read men of his day and the owner of one of the finest private libraries in intellectual New England. Brilliantly educated, possessed of a strong sense of social justice and a biting pen, he was for many years a powerful foe of corrupt business and politics in his native State of Connecticut. No man ever lived a nobler Christianity or struggled more courageously for the achievement of honest democratic government in his local world.

To John T. Flynn, who has made a world-wide reputation for himself as a writer on economic problems and particularly as an authority on exploitative techniques in modern capitalism, I also owe much. At one time I was on his editorial staff, and from him I learned many of the fine points about predatory business. More important, I appreciated the high standards of mental integrity which he impressed on those who were fortunate enough to fall under his influence.

I wish to express my appreciation to the Commissioners of the Federal Trade Commission for the opportunities which they put in my way to study the actual workings of business in the United States, and for many happy hours of personal association with them. There is no better vantage point in America than the Federal Trade Commission for acquiring a proficient technical knowledge of how capitalism has been operating in the United States for many years. The famed investigations of the Commission have reached into every important sector of our capitalist economy. As Economic Ad-

viser to the Commission I enjoyed an unusual opportunity to study the critical problem of monopoly. Let me say, however, that none of the Commissioners had any responsibility for this book, since I never discussed it with one of them.

In the actual preparation of the manuscript I am indebted to Dr. Mollie Ray Carroll for carefully examining, checking and appraising the historical sources and economic theory presented. There were few people I could trust with the secret that I was preparing a book attacking the New Deal's sacred cow of government spending, and solely on the basis of friendship Dr. Carroll consented to review the work for errors without regard to the philosophy expounded. For the conclusions advanced, particularly those with respect to labor, Dr. Carroll has no responsibility since they are entirely my own.

Before sending the manuscript to the publisher, I felt it would be valuable to have it read by some practical business man. Now business men with an understanding of economic problems are not plentiful in America. I was able, however, to enlist the aid of an excellent critic. I am indebted to the Hon. Walter C. Ploeser, Congressman from Missouri. I met Mr. Ploeser when, for a short time, I was acting as Economic Adviser to the House Committee on Small Business and I came to admire his capable mind and the courage with which he faced public issues. Before coming to Congress, he was a successful business man, and in the House he had made a reputation for himself as a loyal champion of the interests of small business and as an implacable foe of private monopoly. For his constructive criticisms of the manuscript, donated on the basis of friendship, I am grateful.

To Mr. B. K. Leech, president of one of the nation's most successful smaller corporations, I am also beholden for encouragement and assistance.

Last, but by no means least, I wish to thank Miss Rosalie Leslie, Assistant Dean of Women at the University of Maryland, for miscellaneous but valuable services.

W. J. B.
Washington, D. C.

FOREWORD

I first came to know Willis Ballinger back in 1937, at a time when the New Deal was reassessing its strategy and deciding that the fostering and enforcement of competition was a better economic policy than the attempt to impose the controls of an NRA Blue Eagle on a fundamentally freedom-loving people. As economist for the Federal Trade Commission, Mr. Ballinger was excited about the turn of events. The NRA had seemed to him a lamentable surrender to the European doctrines of state-fostered business monopolies, a reversion to the past, a real reactionary trend of events. By contrast the "second New Deal"—the New Deal symbolized by trust-buster Thurman Arnold—seemed infinitely promising. But the "second New Deal" fizzled out. New Dealism, today, has returned to NRA-type thinking; it believes in price-fixing (witness the battle to continue OPA), it thinks in terms of subsidies, controls and "government investment." No longer is there any important New Deal voice being raised in favor of freeing the market and permitting Americans to resume their old traditions of a free-functioning economy.

Saddened by the defeat of the "second New Deal," Mr. Ballinger began to wonder about the chances for saving democratic capitalism from its ignorant and deluded friends as well as its outright enemies. And, since it is an axiom that those who are ignorant of the past are condemned to repeat it, he decided to investigate the decline and fall of the great capitalistic democracies of the past. The results of his investigations, which are embodied in this book, are extremely interesting. Athens, Rome, Venice, Florence, the France of the First and Third Republics, Weimar Germany and Italy all had free governments and capitalistic business mechanisms; all of them succumbed to more or less the same diseases. Of the eight democracies, five perished peacefully, by vote of the people. Rome voted away its liberties in the Age of Augustus, Germany let Hitler take over by strictly legal methods, Florence lifted the Medici to power without unconstitutional violence, Italy gladly welcomed Mussolini's advent, and the France of the First Republic accepted Napoleon Bonaparte

as consul and emperor in the fond delusion that dictatorship could protect liberty. In Venice a clique fraudulently put over dictatorial government by buying up the legislature. Only Athens and Third Republic France perished by violence, the first being overrun by the Macedonians, and the second by Hitler. But Athens and the Third French Republic were already weakened internally before the conquerors came storming in from over the border.

From his investigations Mr. Ballinger has learned that democracies usually perish from economic causes. They grow up and flourish when wealth is diffused, and when free citizens do their own buying, selling and investing without running to the State for help. They decay and die when wealth becomes concentrated, and when the government undertakes to support the unemployed out of taxes, gifts and the inflationary creation of a monetized public debt. Always it is the same, in ancient Athens as in modern Germany, in the Rome of Augustus as in the Rome of Mussolini.

Mr. Ballinger is distressed by the inability of our economic doctors to draw conclusions from the record of the past. Instead of attacking the evil at its source—*i.e.*, the concentration of wealth—the economic doctors advocate governmental policies that only add to the concentration. They pursue a line of thinking that makes it impossible for anyone except a rich man like Marshall Field to start a newspaper. They devise taxes which are supposed to help the little man, but which actually freeze the structure of society, enshrining the rich as a favored class and preventing the poor man from acquiring capital. They talk a lot about the sanctity of "little business," but only Big Business—and Big Labor—flourish under their ministrations. Quite oblivious of the history of Seventeenth and Eighteenth Century mercantilism, they go in for all the dodges and devices of mercantilist restriction of production. Like Diocletian, who sought unsuccessfully to save Rome by price fixing, they support price controls even in fields where there is surplus production, as in the case of beef. And people go hungry for meat amid plenty.

Personally, I disagree with Mr. Ballinger on a couple of points. His defense of the protective tariff seems to me misguided; after all, the very rackets which he deplores have come into existence behind a tariff wall. And I do not share his faith that government can do much of a positive nature to break up concentrated wealth; only the people themselves can do that, through the development of consumer

cooperatives and mutualizing associations of their own. Moreover, if you entrust "quasi-judicial" bodies with the enforcement of anti-trust laws you are fostering the development of "administrative law"—which is just a polite name for administrative discretion. (You can't have "equal justice" under discretion.) But if Mr. Ballinger's trust seems to me misplaced, his analyses are brilliant. He makes you see why ages of Public Magnificence, such as the ages of Pericles and Augustus, are inevitably followed by dark ages. He also makes you see how a Pericles, an Augustus, get a plausible hold on peoples' minds. If seeing is believing, a great deal of good should come out of the wide reading which *By Vote of the People* deserves.

JOHN CHAMBERLAIN,
Cheshire, Conn.

PART I

FREE GOVERNMENTS OF THE PAST

CHAPTER I

THE SHADOW OF HISTORY

THIS book was begun in the fall of 1938 before any war cloud had appeared on our political horizon. Government spending was obviously failing to cure the great depression which began in 1929. Nine years of public charity had been without avail. Some of the advocates of the theory of "borrow and spend, and spend and elect" were becoming worried in spite of the political triumph of their program. Putting millions of people on the public pay-roll had not solved the problem of effecting a sound revival of private business. There were disquieting signs throughout the nation. The people were growing restless and fretful. The mounting tide of national debt was provoking sharp criticism. Two more years of depression and the New Deal administration might pass into history. But in such dour reflections, there was no concern about our democratic form of government. The politicians were thinking exclusively in terms of party defeat. The Democratic party might be defeated. The depression might continue. But our democracy could not be shaken by hard times and periodic battles for political spoils.

Yet between 1933 and 1935 something had happened in Germany which should have had our closest attention. Almost without our knowing it, German democracy ceased to exist. Its end had come about peacefully, entirely within the framework of democratic government.

Under the prod of time's hoary economic forces the German people had enthusiastically conferred despotic economic power upon Hitler. Once the Fuehrer had a complete control of the livelihood of the individual German, political despotism was natural and inevitable. German democracy had in fact been destroyed by vote of the people. This democratic origin of dictatorship in Germany and the economic factors which so largely produced it received little attention in the United States. It was not until several years later that the American public became aware that dictatorship had been estab-

lished in Germany. By that time the Nazis had shocked the world by their persecution of Jews and Catholics, and the war machine of Hitler had been recognized as a menace to the peace of the world. It was a popular notion in the United States that the German dictatorship had been brought about by Storm Troopers, Gestapo agents, and political assassins. This notion made us dismiss dictatorship in Germany as having little bearing on our own troubled affairs. Since our democracy was in no danger from such cutthroats, the American people saw little relationship between dictatorship in Germany and the fateful drift of economic events in their own country. It was to call attention to the economic significance of Hitler that this book was begun.

In historical retrospect Hitler was a terrifying portent in the modern world. Democratic government is not an invention of the past few centuries. For thousands of years democracies have been appearing and disappearing. Up to the beginning of the present world war, eight important free governments had flourished and perished in the last twenty-five centuries. Five hundred years before Christ a vigorous democratic government prospered in Athens. Two thousand years before the American Revolution, Rome had been the center of a thriving free government. The Venetians maintained political freedom for some nine centuries in the middle ages, while the people of medieval Florence fought off tyranny for hundreds of years. The people of eighteenth-century France established a free government based on manhood suffrage. Although it lasted for only ten years, it was in its day a beacon light of hope in a Europe dominated by despots. Shortly after the middle of the nineteenth century free government reappeared in France—this time on a more enduring basis—and France became one of the great democracies of the modern world. Then democracy bobbed up in modern Germany for a brief period of twelve years. For a nation that had been for many years under the iron heel of the Hohenzollerns, the birth of democracy in modern Germany was a notable achievement. Even in modern Italy, after centuries of despotism, the people had finally managed to recreate their ancient democracy in a nation again united, only to lose it in a few fateful years.

Of these eight free governments, only two were destroyed by conquest. Athenian democracy was destroyed by Philip of Macedon in the third century before Christ, while the Third French Republic,

born in 1870, perished from the sword of Hitler only a few years ago. None of these free governments was destroyed by revolution. Revolution is the nemesis of monarchy. History fails to record a single instance of any important free government being destroyed by a revolution.

The destruction of the other six free governments was accomplished entirely within the framework of democratic processes. In the case of five, startling as the thought may be, free government passed away by vote of the people. History thus presents the strange paradox of despotic government created by consent of the governed —a result as strange as if an absolute monarch had voluntarily relinquished his despotic powers and conferred sovereignty upon the people.

In the case of the sixth, that of Venice, a genuine Fascist clique of rich traders and industrialists bought up the Venetian legislature. This packed legislature then proceeded to vote, under the guise of legality, the death of Venetian democracy by depriving the people of their ancient right to vote for the election of members to the legislature. When the aroused people attempted resistance to the fraud they found the conspirators too well armed and organized and the popular revolt was ruthlessly put down. We shall see, however, that the same underlying economic forces which made possible the destruction of Venetian democracy without the consent of the people also brought about the destruction of the other five free governments *with* popular consent.

The average American tends to think of protecting free government in terms of protecting it from violence. He fears foreign conquerors or domestic revolutionists and believes that when a free government has an adequate army or police force, its security is assured as far as it is possible to assure it. Like the Chinese, centuries before Christ, who thought to preserve their civilization by building a great wall on their western frontiers, only to be conquered from the sea, this kind of thinking does not provide against the really effective way in which free governments have been destroyed in history.

Six important free governments in the past twenty-five centuries have been destroyed not by war or revolution but by internal economic conditions. History furnishes convincing evidence that free governments have been more menaced by economic conditions op-

erating in times of peace than by conquerors or revolutionists. The alarming fact is that for thousands of years free governments have been disintegrating into pawns of other Hitlers under the propulsion of uncontrolled economic forces.

By 1938 it was apparent that our own democracy was menaced by the same economic conditions which had brought about the peaceful and constitutional transformation of German democracy into an autocratic government. One could not predict just when economic forces might cause the peaceful destruction of our own free government, but the signs were convincing that unless our democracy could control these economic conditions, it would run afoul of dictatorship in the not far distant future.

Indeed, these economic conditions were menacing the future of free government everywhere in the world. It was merely a geographical accident that Italian and German democracies became the first modern victims of the same economic forces which have been destroying other democracies for thousands of years. If Hitler had not gone to war, we might have witnessed in other countries the same peaceful demise of free government as occurred in Germany. France was on the verge of peaceful dictatorship when she was conquered. Parliamentary government in England was involved in a death struggle with the same economic conditions that had wrecked German democracy.

Then came the second world war, and into the remote parts of the earth the American soldier went forth to protect our democracy from the threats of foreign conquerors. At the present moment we know that our democracy will not be destroyed by external force. The defeat of the Axis powers has now been accomplished. The return of peace, however, will not bring security to our democracy. The crucial question is whether or not our democracy will survive Hitler only to succumb to the same economic forces which created Hitler and other Hitlers for many centuries in the history of the world. Indeed, for liberty-loving peoples everywhere in a war-torn world there is the same grim challenge. Unless we and other free peoples can be aroused to understand and to control the economic forces which are sapping away the foundations of free government everywhere, democratic government in an era of peace may disappear once more from the face of the earth as it did in the ancient world. Across the hoped-for road to a better world which leads out

of the blood-soaked fields of Europe and Asia looms the dark shadow of another night of universal tyranny in the history of the globe.

Now that the democracies have routed the dictators, much thought will be devoted to the problem of protecting free governments from future military vandals. Important as this problem is, its solution will not insure the continuance of democracy in the modern world. Preventing war will not prevent the internal disintegration of democratic governments caused by economic forces. It is only in the right kind of economic soil that the tree of political liberty can survive. Neither in the United States nor in England will the continuance of free government be assured simply by defeating Hitler and creating an internal police force strong enough to preserve the peace of the world. Nor can democracy be restored in countries where it was crushed by the German war machine, or conferred benevolently upon peoples who have lived for centuries under despots unless economic conditions are favorable to its survival.

France, liberated by our armies, will not revert automatically to a democracy because the German conqueror has been expelled. Unless economic conditions favorable to the existence of democracy are established, France will merely exchange one dictatorship for another. The Italian people will find that its leaders cannot create free government in Italy merely by giving all adult men and women the right to vote; that the right to vote is an empty one unless accompanied by economic conditions which will make possible its genuine exercise.

If and when defeated Germany is ultimately readmitted to the family of nations, she will enter that family as a dictatorship unless the economic conditions which made the totalitarian state inevitable are uprooted and an economic environment conducive to free government is substituted.

Free government programmed in China will be a gesture only unless economic conditions in China cooperate to keep it alive. Democracy cannot be bestowed upon Africa, Tibet, Persia or Thailand unless economic conditions are designed to make it work.

No program to preserve, restore, or extend modern democracy can succeed if it ignores the vital dependence of free government on the right kind of economic conditions. Nazis and Fascists are but the reflex action of distempered economic forces.

CHAPTER II

DEPENDENCE OF FREE GOVERNMENT ON CAPITALISM

WHAT is the economic soil without which the tree of political liberty cannot live? On this point history furnishes a definite answer. Wherever in history a free government has emerged, the economic life of a people, politically free, has been invariably organized in a system essentially capitalistic in its nature. On the other hand, wherever in history despotism has existed, the economic life of the people has been invariably organized in a system which is not capitalistic. This constant association of democracy and capitalism could not have been accidental. It indicates clearly that it is only in a capitalistic economic system that political freedom can exist. Why this is necessarily so we will consider in a moment. First a few preliminary facts must be established. Is it true that democracy and capitalism have existed for thousands of years? The average man generally thinks of them as developments of the last two centuries. Sometimes he remembers vaguely that the Greeks had a word for democracy, but of the antiquity of democracy and capitalism in history, most people have no conception.

THE RULE OF THE MANY

It was the ancient Greeks who coined the word "democracy." Their word "demokratia" is from "demos," the people, and "kratein," to rule. Literally translated, it means the rule of the people. Democracy is in substance the rule of the "many," as contrasted with absolute monarchy, the rule of "one," and with oligarchy, the rule of the "few." Who are the "many" and how many of them does it take to make a democracy? In America, today, the "many" include all adult men and women who have been born in the United States or its territories. They also include aliens who have been naturalized. America, however, has been regarded as a democracy for more than

a hundred years, and the "many" were not always so numerous. The United States was referred to as a democracy by the French writer, De Tocqueville, in the early part of the nineteenth century when the nation had a large slave population and when women could not vote.

To understand the essence of democracy, let us now insert a hypothetical condition. In the United States the various States determine the age at which a person may vote. Almost without exception a voter must be twenty-one years old. Now let us suppose that within the next few years the voting age was lowered by the States to eighteen years. Could it then be contended that before this was done the United States was not a democracy? We do not think so. In some democracies the "many" are more numerous than in others, but the essence of democracy *is the legal power of a majority of a substantial number of the inhabitants of a country to choose the government which governs them.* The rule of the majority is usually achieved by establishing a basis of equality among the voters which disregards differences in wealth. Generally the basis of equality is one vote to each voter, regardless of how rich or poor the voter may be; and a voter is entitled automatically to participate in democratic government solely by virtue of the fact that the voter has reached a certain age. In one stage of Roman history, however, we shall see that popular government could exist to an effective degree even though differences in wealth between voters were not disregarded, and that, in addition to age, the ownership of a minimum amount of property was the basis of eligibility for voting. In the case of Florence we shall observe the principle of "lot" serving as the basis of equality among voters. Theoretically in "lot" every citizen had an equal chance with every other citizen to be chosen for office, and it did not violate the principle of equality among those entitled to participate in free government.

In ancient and medieval democracies in general, the "many" included only free-born adult males. Resident aliens, slaves and women were rigidly excluded from participating in government, although in ancient Athens, Rome, Venice and Florence, male slaves could be freed and admitted to citizenship and male aliens could be naturalized and accorded full citizenship status. In Rome, the "many" ultimately included more classes of people than participated in Athenian democracy. When the rule of the people was first established in Rome, the "many" included only adult free men who had been born

in Rome and of Roman parents. Later on, the "many" included the free men of subjugated tribes in the Italian peninsula. Finally, under the Republic, the adult free males of some of the conquered possessions of Rome were made Roman citizens. However, when a Roman citizen voted, he had to appear in person in Rome to register his intention to vote, and then he had to go personally either to the Forum or to the Campus Martius to cast his ballot in the Assembly of the People.

In Venice the "many" included all free-born adult males, but in Florence the "many" did not include all free-born adult males. Only business proprietors could participate in government. Wage earners and employees were ineligible to hold office. The constitution of Florence, however, could be amended only by a ratifying process in which all adult free-born Florentines had the right to vote. The democracy of Florence appears to be the most limited of the democracies of ancient and medieval times. Yet the Florentine people played a spectacular role in conserving the political liberty that existed, and they protected the commonwealth for many centuries from a *governo di un solo,* the Florentine phrase for tyrant.

In eighteenth-century France, the brief democracy which lasted from 1789 to 1800 was based for a time on universal male suffrage. In 1795, this principle was somewhat abridged, but, to the end of the republic, the voting electorate was substantial.

Democratic government immediately brings to mind a popular legislature through which the will of the "many" is expressed. In modern democracies, the legislature is composed of *representatives* of the "many." In ancient and medieval democracies, representative government generally did not exist. Every individual who comprised the "many" in Athenian democracy was entitled to a seat in the Athenian *Ecclesia,* which was the supreme legislative authority in the state. Forty times a year, the "many" gathered from all parts of Attica, on the Pnyx Hill in Athens, and there, by a show of hands, decided what laws should govern them.

The Roman *Comitia Tributa* became the supreme law-making body of the state and was very similar to the Athenian *Ecclesia.* In the *Comitia Tributa,* however, individual votes were recorded and tabulated. Periodically the Roman people gathered in the Forum to ratify or oppose legislation proposed by the Senate or magistrates having the power to introduce legislative bills.

The Venetian *Arrengo* was likewise modeled along the same lines as the Athenian *Ecclesia* and the Roman *Comitia.* On the pealing of a cathedral bell, the Venetian people gathered in an open-air forum to reject or approve the legislative proposals of the Doge or members of the *Arrengo.*

Representative government appeared in medieval Florence. The legislature of Florence was composed of three councils—the *Council of the Hundred,* the *Council of the People* and the *Council of the Commune.* Legislation proposed by the executive, called the *Signory,* had to be referred to these three houses of the legislature, and the concurrence of all three by a majority vote was necessary for the ratification of a law. The members of the three councils, however, did not include all the "many" who were qualified to participate in government. They included representatives of the restricted "many," chosen every two months by a method of "lot."

The fact that the democracies of Athens, Rome, and Venice did not operate on the principle of representative government does not justify any inference that modern democracies are more capable of protecting themselves from destruction. On the contrary, direct democracy was probably better constructed to protect itself than indirect or representative democracy.

In representative government, the legislature has frequently betrayed the will of the people. In direct democracy there was no chance for this to happen and it was more difficult to corrupt the legislature because of its size. Furthermore, direct democracy made the average man more familiar with the problems of government and more capable of handling them. The Athenian farmer, tradesman, or artisan knew more about government than his counterpart in America today, because of the fact that he was compelled year in and year out to take an active hand in government. A high level of familiarity among the "many" with the problems and processes of government probably tended to protect ancient democracies more effectively from destruction than does the technique of representative government. Lord Bryce is of the opinion that the direct democracy of the Athenians "raised the capacity, as well as his familiarity with public business, of the average citizen to a higher point than it has ever attained elsewhere except perhaps in Switzerland."[1]

One must point out, however, that in the democracies of ancient

[1] James Bryce, *Modern Democracies,* Volume I, page 167.

and medieval times the "many" were in all cases a very small number of people when contrasted with the great democracies of today.

Compton Mackenzie, for instance, estimated the total population of Attica, when Athenian democracy was at its height around 450 B.C., at approximately 285,000 persons, of whom 150,000 were free-born Athenians, including women and children; 35,000 were resident aliens; and 100,000 were slaves. Thus, the "many" in Athens consisted, at most, of not more than 50,000 or 60,000 out of 285,000.[1] In the democracy of medieval Florence, the total number of persons eligible to hold office in the state never numbered more than 4000 or 5000 persons, although the number of persons qualified to take part in the process of government was greatly increased when the Florentine constitution was amended.

The right of suffrage in ancient and medieval democracies was more limited than our own. These states were tiny affairs when contrasted with a voting electorate of fifty or sixty million people in America today. However, those early governments were none the less democracies in that the "many" included generally a substantial percentage of the total population. The late Viscount James Bryce believed that those ancient governments should be classified as democracies when he wrote:

> Democracy is a new thing in the Modern World. More than nineteen centuries have passed since it died out on the coasts of the Mediterranean. During all these centuries down to the days of our great-grandfathers, those who thought or wrote about it had to go back to classical antiquity for example and instruction, since the *only descriptions of its actual workings* they could use were provided by the ancient writers.[2]

At another point Bryce also says:

> With the fall of the Roman Republic the *rule of the people* came to an end in the ancient world. For nearly fifteen centuries from the days of Augustus till the Turks captured Constantinople, there was never among the Romans in the Eastern Empire, civilized as they were . . . a serious attempt to restore *free government*. . . .[3]

[1]Compton Mackenzie, *Pericles,* page 149. The effective number of voters, *i.e.,* voters actually attending meetings of the Ecclesia, was much less. Democracy in Athens, like democracy in the modern world, was plagued with the problem of voters who were too busy or lazy to vote.

[2]James Bryce, *Modern Democracies,* Volume I, page 165. My italics.

[3]*Ibid.,* page 26. My italics.

Whether these governments of the past are to be classified as democracies or not, they did embody a substantial degree of political liberty when contrasted with an absolute monarchy or an oligarchy. The important point is that the political liberty which did exist in them *was destroyed by economic conditions and that the destruction of this political liberty could not have been averted even if the "many" had included all slaves and women and the electorates had been as large as those of modern democracies.* The Republic of Ancient Rome would have been transformed into a permanent dictatorship irrespective of the number comprising the "many." The destruction of political liberty in Athens would not have been prevented even if every inhabitant in the nation had had a voice in the government and even if the electorate had included all the classes who participate in a modern democratic government. Cosmo di Medici would have been elected dictator of Florence even if all the women in the city had been eligible to vote. The extent of the suffrage base in the Florentine government was not a factor in the result. The fact that electorates in modern democracies are so much larger than the electorates of ancient democracies has not made them immune to the consequences of destructive economic conditions. Democracy failed in modern Germany, where every man and woman of adult age had the right to participate in government and where the size of the electorate was many times larger than that existing in any ancient democracy. The same economic forces which destroyed Athenian and Roman democracy in the ancient world were not stopped in modern Germany because the electorate was so much larger.

CAPITALISM

To realize that capitalism is ancient in the history of the world one must know that it can exist without automobiles, radios, jumbo dynamos or billion-dollar corporations. Ancient capitalism did not have the high-powered and intricate machinery of modern capitalism, nor did it turn out the varied products that are found in modern capitalism. Capitalism, however, as a *system* for producing and distributing wealth, should not be confused with tools of production nor with variety of production. Modern capitalism has better tools and a greater variety of output, but the *system* by which the production and distribution of wealth are organized and effected in

modern capitalism is the same as it was thousands of years ago.

Since the dawn of civilization there have been, fundamentally, only two kinds of economic systems. One is capitalism. The other is an authoritarian economic system. Let us begin with capitalism.

The purpose of an economic system is to produce and distribute wealth. Before this can be done, certain important questions have to be resolved. *What* kinds of wealth will be produced and in what amounts? Who will produce each kind? How, in other words, will the labor supply be allocated? Finally, who will get the wealth that is produced? How will it be divided? Will a few unfairly get most of it? Or will it be divided on a basis which aims at approximate justice so that the mass of the people who produce the wealth will be assured of a fair share?

The two kinds of economic systems can be distinguished on the basis of how these questions are answered.

Webster defines capitalism as:

> An economic system in which the production and distribution of wealth, the employment and reward of human labor, and the extension, organization and operation of the system itself are entrusted to and effected by private enterprise and control under *competitive conditions.*

In capitalism the questions propounded above are resolved through the free initiative of individual business men whose activities are guided and controlled by prices. Prices are determined by competition in markets. Thus, the vital questions of what kind of wealth will be produced, who will produce it, and the division of total production are solved by the operation of natural law—the laws of supply and demand.

Competition determines what kinds of wealth will be created and in what amounts. Business men will manufacture a given thing if the price at which it sells is sufficient to pay all costs of production and to yield a profit. The cost of producing goods is also determined by competition. The price of land is determined by competition. So, too, are the prices of machinery and tools, the price of capital, and the price of labor. If a price rises because of increased demand, business men will increase its production. Conversely, if the price falls to a point unprofitable for some producers, they will withdraw from production, and the supply of the goods will be reduced.

Finally, competition that is *free and fair* effects an automatic and

just distribution of total production.[1] Those who furnish capital are paid interest. Labor is paid wages. Owners of land are paid rent, and business men who assume the risks of production are paid profits. Interest, wages, rent, and profits are all determined by competition, and in a soundly functioning capitalistic system the mass of people who produce the wealth receive a fair share.

Also, there is a large degree of economic freedom for the individual, as contrasted with the complete lack of such freedom in an authoritarian economic order. The business man is relatively free to choose what he will produce. The worker is relatively free to choose his job. The consumer is relatively free to choose what he will buy.

The motor of a genuine capitalist system is free competition. It is the indispensable condition for the existence of a capitalist system. This must be kept in mind because there are authoritarian economic systems which have some of the characteristics of capitalism, but which are not capitalistic because the production and distribution of wealth in them are not effected by the operation of competition.

Although, however, competition is a necessary condition for the existence of a capitalistic system, an economy in which all business is not regulated by competition may nevertheless be capitalistic. In modern capitalism, competition has been abolished in public utilities, which enterprises have been given a special monopoly status by law. So, too, modern labor unions have to a degree eliminated competition as a regulator of wages. Should the present trend of labor in the United States result in creating a labor monopoly, capitalism would cease to exist. This point will be further discussed later on.

Such exceptions, however, do not preclude a capitalist system as long as business in general is regulated by competition.

Capitalist systems usually go through two stages of development. In the first stage—agrarian capitalism—land ownership is highly diffused throughout the community. Each holding contains within itself the raw materials to provide the owner and his family with food, clothing, and shelter. The farm grows cereals and vegetables. It pastures sheep and cattle, from which are derived meat and the raw materials for clothing and shoes. The land, too, furnishes wood

[1] Competition cannot operate to distribute production justly in a capitalist society unless government enforces laws to prevent either its suppression or the use of unfair methods of competition by business men. Suppressed competition and unfair competition have caused a great amount of wealth to be unjustly distributed in capitalist systems.

and stone with which to build shelter. Generally there are primitive markets in which surplus products are exchanged, under competitive conditions, either on a crude barter basis or by the use of some object of value for money such as sheep, oxen, wampum, or bars of iron. The markets found in agrarian capitalism are frequently as primitive as those of the Iroquois Indians, who every year used to get into their canoes, and, at an appointed time and place, meet with other tribes and barter their surplus food, pottery, weapons, deer hides, and other products. In agrarian capitalism, each land owner is largely economically self-sufficient.

Agrarian capitalism generally expands into financial and industrial capitalism. In the latter, self-sufficiency is supplanted by increasing interdependence. The farmer no longer makes his clothes on the farm or builds his house with his own labor. He sells his crops for cash and with the proceeds buys products manufactured by industrial workers. Town and country ultimately exchange manufactured and food products in organized competitive markets and the self-sufficiency of agrarian capitalism disappears.

AUTHORITARIAN ECONOMIC SYSTEMS

An authoritarian economic system is the reverse of a capitalistic one. It has three well-defined characteristics:

1. Absence of competition in business. Various businesses are operated as monopolies either privately owned or by the government itself.

2. Government exercises an arbitrary and complete control over the economic system. All economic activity is the creature of government and government wields a life-or-death power over all business either through control of prices, credit, wages or by directly owning and operating all business.

Whereas the motor of capitalism is natural law, that of an authoritarian system is personal law—arbitrary ukases and edicts of government.

3. Government completely controls the economic life of the individual. The individual is helplessly dependent on government for the opportunity to make a living and enjoys no economic freedom.

In a capitalistic system, the government is powerless to control or coerce the livelihood of the individual. So long as competition is

relied upon to organize the production of wealth, business men are free to engage in production and the creation of jobs. Thus the government in capitalism cannot prevent the individual from making a living and cannot control the economic life of the individual.

Authoritarian systems are divided into two types, depending on the purpose of the control which government exercises over the economic system.

When the purpose is to exploit the economic system for the enrichment of the few, we have the monarchical type. Where the purpose is *alleged* to be the development of maximum economic opportunity for the masses, we have the radical type. The word "alleged" is used because we shall see later on that it is very easy for a radical authoritarian economic system to drift towards the monarchical type and to become as thoroughly exploitative.

Monarchical Type

The monarchical type is found in absolute or despotic monarchies. It has many of the characteristics of capitalism. Businesses are privately owned and operated. Goods are sold for money at prices in organized markets. Business men receive profits, workers wages and landlords rent. But the essential capitalistic element of competition in business is absent. Business is organized into a series of monopolies and government exercises a thorough control over the economic system and the economic life of the individual. Many of the monopolies are owned by the King. Others have been given by the King to his favorites or sold to business men for princely fees to replenish the royal treasury. The prevalence of monopoly in the economic system, which restricts production and tends to confine it to the making of luxury goods for the rich, is the reason why the masses in absolute monarchies are invariably very poor. Their poverty, however, is frequently obscured by the splendor of great estates and the costly luxuries enjoyed by the privileged few.

When the Roman Emperorship finally became thoroughly despotic, freedom in business had ceased to exist and government completely dominated the economic life of the individual Roman.

The Roman government became an enormous and devouring bureaucracy, its officials swarming in the center and remote parts of the Empire, complicating with "their useless forms and their red tape an administration which was already sufficiently complex,"

penetrating into "every detail of economic life" and spreading over the towns and countryside "a network of controls, of informers and oppressions."[1] It became possible to say of this bureaucracy that "those who live at the expense of public funds are more numerous than those who provide them."[2] The tiller was bound to the field, the cobbler confined to his booth. Thousands of free workmen were forced to contribute compulsory labor. The callings of trade were made hereditary and were gathered into a powerful and bewildering organization, consisting of "a hierarchy of innumerable degrees, leading from an almost orientally despotic monarch to the humblest cleaner of the aqueducts."[3] The destruction of individual initiative in the economic sphere by the Roman State finally produced such an enfeeblement of human will and such decay of institutions that the Empire perished from inner rot. Nothing less than "a brutal and complete revolution could have reanimated and regenerated mankind."[4]

When political despotism overtook Florence and Venice in the middle ages, there was the same authoritarian engulfment of private business as occurred in Rome when the Emperorship became absolute in power. Under the despotic monarchy of Louis XIV, the economic system in France also became completely authoritarian.

Radical Type

The radical type of authoritarian economy emerged in the modern world in Russia, Germany and Italy. In Russia it is called communism. In Germany it was known as the totalitarian state, while in Italy it was designated the corporate state. Historically authoritarian systems are very ancient. Communist economic orders, for instance, are found in very early history.

Though there are differences between the authoritarian economies of Russia, Germany and Italy, basically they are the same. Thus in Russia all the physical means of production—land, natural resources and factories—are owned and operated by the government. In Germany and Italy, however, before the war both the totalitarian state and the corporate state had many features of capitalism. Land and natural resources were largely privately owned and operated. So, too, were the bulk of the factories. Whereas, in communism goods were

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[1]Paul Louis, *Ancient Rome at Work*, page 231.
[2]*Ibid.*, page 232. [3]*Ibid.*, page 21. [4]*Ibid.*, page 318.

produced and distributed without the use of money, the authoritarian economies of Germany and Italy had full-fledged money economies. Goods were produced for a profit, sold at prices in organized markets, and the capitalistic incomes of profits, wages, rent and interest existed. In all of them competition had been expelled from business and the distribution of the wealth that was produced, among those who produced it, was on a basis which professed to aim at approximate equality. In all of these nations, highly skilled workers, managers of state industries in Russia and privately owned ones in Germany and Italy, high civil and military officials, received larger shares than did the average worker, but it was constantly pointed out and claimed that production was organized to give maximum economic opportunity to the people. Yet in these three economies *all* economic activity was the creature of government and government completely controlled the economic life of the individual. In Russia, the government operated directly to determine what kinds of wealth would be produced and in what amounts, allocated the labor supply, and allocated to each individual his share of what had been produced.

In Germany and Italy the same control was achieved indirectly, but to the same intense degree by government. Government imposed a series of controls on what was left of capitalism in these countries. Producers were assigned quotas. Prices, credit and taxes were manipulated to encourage or discourage production. Some of the features of capitalism were thus retained in these two economic systems, but capitalism was completely eliminated in substance and an authoritarian system substituted.

ANTIQUITY OF CAPITALISM

Both the ancient Greeks and Romans developed full-fledged capitalistic systems. Business was in general privately owned and operated. Business men undertook production for the reward of profits. In this faraway past, one beholds modern capitalism in miniature. There are private bankers lending money to agriculture, industry and trade as in our day. One finds depositors receiving interest and a completely developed money economy. The equivalent of the American quarter in Roman money was the *denarius*.[1] The Roman

[1] *Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume I, page 47.

sesterce was the American nickel except that it was coined in silver.[1] The Roman *as,* a copper coin, was the counterpart of the ubiquitous American penny.[2] The Roman *one scruple* piece was the American dollar. Rome also had two, three, four and six dollar coins known as *two, three, four* and *six scruple* pieces. In Athens the *obol* was equal to about three cents in our money. Two *oboli* equalled one *diabolon* and three *diaboli* equalled one *drachma.* The *drachma* roughly corresponded to the American quarter. The Athenian *mina* was worth one hundred *drachmæ* and the *talent,* six thousand *drachmæ.*

Rome and Greece had many manufacturing industries and one finds a very modern specialization of labor.

Thus, the Roman textile industry was divided into dyers (*offertores*), carders (*carminatores*), weavers (*textores*), and fullers (*fullores*). The building industry of Rome was a hierarchy of specialized trades. There were the lime burners (*calcis coctores*), masons (*structores*), arch builders (*arcuarii*), partition makers (*parietarri*), plasterers (*tectores*), whitewashers (*abarii*), cement makers (*cæmentarii*), and marble layers (*marmorarii*).

In both Greece and Rome "big business" developed. This business was not on our modern scale but it was big for its day. There were no hundred-million-dollar corporations, but in ancient Greece there were factories employing one hundred and twenty workers, and in Rome still larger ones employing two or three thousand workers. In Rome one even finds corporations (tax-gathering syndicates having limited liability and the right to issue shares), the sale of stock to investors, and a place where stock trading took place which was in substance a stock exchange.

The ancient world knew a great deal about mining. The Greeks and the Romans had copper, gold, silver, iron, tin, lead, and zinc mines; and the Romans actually knew how to convert iron into steel.[3] Both Rome and Athens developed foreign trade on an extensive scale.

In certain sections of both of these cities, merchants had their warehouses, counting rooms, private wharves, and fleets of vessels; and they had foreign agents who kept them informed by correspondence of trade conditions abroad.

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[1] *Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume I, page 47. [2] *Ibid.*

[3] Tenney Frank, *Economic History of Rome,* page 232.

A free laboring class emerged in both Athens and Rome. This laboring class was paid wages. In Cicero's day, the daily wage of a free agricultural laborer was around two sesterces (ten cents), plus food. In Rome the industrial worker received around three sesterces a day, to which were added other emoluments.[1] Agriculture in both Athens and Rome tended to be specialized in certain localities, and surplus crops were sold abroad in foreign markets.

Many of the legal instruments of present-day commercial and industrial life were in wide use. The ancient Greeks and Romans had mortgages, contracts, bills of sale and legal processes for foreclosure on land and for the collection of other private debts. In Rome at an early date the transfer of real property and the encumbrance of real property with a mortgage had to be filed with a public authority and published to the world. In both Greece and Rome, a body of commercial law grew up which regulated business transactions in numerous ways, strikingly similar to the judicial regulation of trade in America today. As early as 443 B.C. the Roman plebeians forced the publication of some laws known as the "Twelve Tables," certain provisions of which show clearly the capitalistic nature of business.

> A usurer, exacting a higher interest than the legal rate of one ounce per pound per annum is liable to fourfold damages; a thief is liable to twofold restitution.
>
> Things sold and delivered shall not become the property of the vendee until he has paid or otherwise satisfied the vendor, as for instance by guaranty or pledge.
>
> In the case of an admitted debt, or of awards made by judgment, thirty days shall be allowed for payment.
>
> Associations (guilds) may adopt whatever rules they please, provided such rules be not inconsistent with the public interest.
>
> Gold shall not be burned or buried with the dead, except such gold as the teeth have been fastened with.[2]

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[1]As capitalism broke down in Rome the state was forced to distribute free grain to the poor. Thus, an industrial worker, in addition to his three sesterces a day, might expect from the state five *modii* (approximately one bushel) of free grain each month. Though these wages of labor seem incredibly low, the cost of living in ancient Rome for the poor classes was very much less than in modern America. Some economic historians have calculated that while wheat cost more in gold or silver in Rome in 49 B.C. than in the year 1932 in America, vegetables cost only about one-sixth as much, cheap clothing about one-sixth and far less clothing was needed by the laborer in the warm climate of Italy. (*Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume I, page 386.)

[2]*Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume I, page 13.

The essential element of capitalism was also clearly evident. The products of industry, mining, and agriculture were sold in highly competitive market places for money and at prices determined by supply and demand. Rome had its grain market, its meat market, its vegetable market, and its shopping districts. In all of these market places, buyers and sellers transacted their business on the basis of a price system. It is interesting to note that the price of Roman grain was so sensitive to the laws of supply and demand that during one century it fluctuated from twenty cents a bushel to two dollars a bushel.[1]

WHY FREE GOVERNMENT DEPENDS ON CAPITALISM

An individual cannot be free to vote unless the individual enjoys economic freedom which can be translated into subsistence. When the economic life of the individual can be controlled by government, political freedom cannot exist even though the individual may retain an empty right to participate in government. The basis of political liberty is the existence of opportunity for the individual voter to make a living without government's having the power to retaliate upon the voter by interfering with or destroying that opportunity. Only in a capitalist system can political opposition be substantially protected from economic retaliation by government. When an elec-

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[1]In his book, *Influence of Wealth on Imperial Rome,* page 121, Professor William Stearns Davis says:

"Fixed prices were even less known in ancient Italy than in modern (1910). Everything had to be bargained for; the smallest transactions demanded much time, gesticulation and wind."

The growth of private and public monopoly in Roman capitalism, however, did produce ultimately a wide range of fixed manufacturing and raw material prices.

In *The Greek Commonwealth,* by Alfred Zimmern, the competitive nature of market prices at one stage in the development of Athenian capitalism is stressed (page 281). The markets of Athens were administered by state officials. The duties of these officials were to keep order, prevent quarreling, inspect weights and measures, prevent adulteration and collect through the tax farmers the rent for stalls and booths. These officials also had a special and extraordinary duty of protecting citizens from famine prices. But, says Zimmern:

"No attempt was made to settle prices generally. The market authorities never exercised this natural power [the power to prevent famine prices] except under special circumstances. They preferred to leave buyer and seller free to settle it out by 'persuasion.' It was against their instincts to interfere with private bargaining."

tion is over, a defeated opposition returns to work in an economic system operated by ***natural law***. The government may regulate the quality of competition to prevent fraud or conspiracy in business. It may establish limits to competition so as to protect workers from long hours or unhealthy working conditions. It may do many things to make competition effective and just through regulation, but in a capitalist system government cannot *control* business. The regulations of government are intended to promote the production of wealth by making the competitive motor of the economic system operate efficiently. As long as competition is relied upon to organize the production and distribution of wealth, government cannot *control* the economic life of the individual. Business men are free to engage in production. Production takes place automatically and government cannot stop the creation of jobs which make it possible for the individual voter to make a living without government's having the power to coerce his livelihood.

For government to control the economic system and the economic life of the individual it is necessary to expel competition from the system and to make all economic initiative the creature of the state. Thus in authoritarian economic systems government has the power to interfere with and destroy the opportunity of the individual to make a living. Hence, though in authoritarian systems the right to vote may exist, it is an empty right. It is used only to perpetuate the party in power in office and to give dictatorship a false appearance of democracy. Voicing opposition to the party in power is too dangerous, because government has enormous powers to abridge or destroy the livelihood of the individual.

In the middle of the last century Karl Marx, the father of modern socialism (an authoritarian system), contended that there was no incompatibility between socialism and democracy; that a socialist commonwealth would be a noble democracy. His disciples have religiously repeated his contention for years. But the incompatibility of *any* authoritarian system with democracy has been convincingly revealed in the twentieth century.

The modern world has not yet produced a completely Marxian State. Russia approaches it. Marxian socialism meant two things: first, the establishment of an authoritarian economic system in which all business was to be owned and operated by the state, and in which total production would be divided among the producers on

a basis approximating equality; second, the control of the economic system through democratic government. In Russia, the first part of Marx's philosophy has been partially realized.[1] The second part, however, has been abridged in theory and unrealized in practice. The communists set up a dictatorship of the proletariat, claiming that it would take time before all classes could be permitted to take part in government. For the proletariat, democracy was alleged to exist. The government, it was claimed, was chosen annually by the free vote of industrial workers. In practice the right of the industrial workers to vote has been an empty one. They have merely ratified the candidates selected by Stalin, and Russia has been a thoroughgoing dictatorship. In the thirties, Stalin extended the franchise to agricultural workers and tried to claim that Russia was a democracy. The agricultural workers, however, found the franchise as empty a privilege as the industrial worker.[2] So long as government in Russia completely controls the economic life of the individual, there can be no political freedom in that nation. What Marx did not realize is that an authoritarian economic system, whether it is called socialism, communism, totalitarianism, or the corporate state, *is dictatorship* and within this kind of economic framework political liberty cannot exist.

For the same reason, political freedom was impossible in Nazi Germany and the corporate state of Italy. Both of these countries maintained for some years the appearance of free government. In Germany, the Reichstag, elected by popular vote, was supposed to make laws which the people wanted. In Italy, the Chamber of Deputies was a counterpart of the German Reichstag; yet in both

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[1]Will Communism in Russia in the post-war world of peace abandon Marx completely? Will it drift towards the exploitative type of authoritarian systems? This important query will be taken up later.

[2]In *Men of Power* the author, Albert Carr, says: "Stalin wanted to weaken the arguments of his enemies, so in 1936 he proclaimed that Russia was going to become the most democratic country in the world. To prove it, he announced a new constitution which was to be even more democratic than that of the United States. According to this constitution, the Soviets (local councils of industrial workers) would have complete control of the Russian Government, and the people (including the agricultural class) could elect the members of the Soviets with every citizen free to vote as he wished. Actually, however, this did not change anything. The Communist Party in every part of Russia continued to say who would run for election to the Soviets and who could not. The only candidates the people could vote for were Stalin's friends. As a result the Soviets continued to be mere tools of the Party and Stalin; and Russia remains a dictatorship."

countries elections were controlled by Hitler or Mussolini and effective political opposition was negligible. The legislative assemblies, so long as they met, acted merely as rubber stamps for the dictators.

WHEN CAPITALISM BREAKS DOWN

Free government is secure so long as a capitalistic system operates to furnish reasonable employment to a free people. In history, however, capitalistic systems have always broken down in chronic unemployment. When this happens, the stage is set for the destruction of free government. If private business cannot provide jobs for the unemployed, government is forced to create jobs through government spending on public works, bureaucratic offices, subsidies to business or doles. Citizens with votes cannot be permitted to starve. Government thus becomes a large employer of labor and *controls* the economic lives of a number of voters. These voters are in exactly the same position as if they were in an authoritarian economic system, because government for them is the *only source of subsistence.*

It is not necessary that government should coerce the voters who live off public relief. Generally those unable to find private employment who have found subsistence from the state are grateful for a public policy which has kept them from starvation and are willing to express their gratitude by their votes. Harry Hopkins repeatedly made this patent observation in the public press, when, as W.P.A. Administrator, he was accused of coercing voters in the United States elections of 1938.

Through spending, government also controls business men who are the beneficiaries of government contracts and who contribute both money and friends to the support of their benefactor.

When a capitalistic system has broken down in unemployment and government spending, there is only one way to save free government. The capacity of private business to furnish employment must be restored. If private business remains in depression too long, government spending will increase in volume and eventually government will seek and obtain a complete control over the economic system, with the consent of a people grateful for the economic favors they have received.

The failure of private business to revive in a prolonged depression, to arrest and reverse government spending, is the reason why

free governments have perished by vote of the people. The dictatorship of Pericles in ancient Athens, of Augustus in ancient Rome, of Cosmo di Medici in medieval Florence, of the great Napoleon and Louis Napoleon in nineteenth-century France, of Hitler and Mussolini in recent times, were all compounded of business depressions and government spending.

The approach of dictatorship in the life of a free people has always been an unalarming process for a number of reasons. Of great importance is the fact that the beginning of dictatorial government has always been a very pleasant experience for the people. The people find themselves rescued from unemployment and hunger. Government spending seems to promise economic security and the future seems bright for the masses. Under its hypnotic influence, the people are ignorant of the truth that it is the process by which other free peoples lost their liberty, or that when dictatorship has been once firmly established, their hopes for economic abundance will be rudely shattered. Sometimes, however, a free people have been sufficiently close to a past tyranny to grasp clearly the economic technique by which it was created and have abruptly arrested its repetition.

The people of ancient Rome abolished a rule of kings known as the Etruscan dynasty. A republic was established and Spurius Cassius became one of the chief executives of the infant government. In the midst of a depression and unemployment, Cassius proposed to relieve the condition of the jobless and the hungry by state aid. He proposed to distribute public lands to the poor. Then he proposed that the sums which the people had paid the government for corn brought from Sicily to combat famine should be refunded to them. For this proffered kindness, Cassius was condemned to death by the people. His personal fortune was confiscated and dedicated to the gods.

The people, it seems, recalled vividly that an earlier monarchy in which the king had been merely titular head of a free people had been extinguished by the Etruscan kings, who had established a despotic rule chiefly by seducing the people with public works, doles, and other kinds of government spending. In the words of one historian, the refund proposal of Cassius was "looked on by the plebeians as a cash payment for the throne and refused."[1] There was firm popular opinion that "by his distributions of money Cassius was

[1]Neville Ure, *Origin of Tyranny*, page 228.

erecting a power perilous to liberty" and that "the way was being paved to monarchy."[1] But a few centuries later, the Roman people had forgotten all about Spurius Cassius and the Etruscan monarchy. Time had buried all memory of the economic origin of the Etruscan despotism. The people looked with great favor on statesmen who afforded them handouts from the public treasury. In consequence, they found themselves, in time, with a new despotic monarchy on their backs.

The approach of dictatorship is also beguiling because dictatorship in a free government has always been established, with the solitary exception of Venice, by a "friend" of the people. Pericles was a liberal leader before he made himself dictator. Augustus, the great-nephew of Julius Cæsar, inherited a name dear to the hearts of the Roman people because of Cæsar's efforts to better their economic lot. The people transferred to Augustus all their esteem for the Great Liberator, a feeling heightened by the fact that their friend had been foully murdered by rich men. Cosmo di Medici, the dictator of medieval Florence, also inherited a great name as the friend of the people. His father, though very rich, had gained the gratitude of the people by introducing an income-tax system which made the rich men of Florence assume their fair share of the tax burden and wiped out a tax system which had robbed the poor for years. Napoleon, Hitler, and Mussolini all had established reputations as friends of the people before they struck out for dictatorship. In all these cases, the people, weary of free government which had failed to protect them from economic exploitation and joblessness, were willing to trust a friend with unlimited power which they believed would be used to relieve them from oppressive economic conditions.

Dictatorship is also usually achieved without *disturbing the forms of free government,* forms which may linger on for many years after dictatorship has been firmly established. An attack on those forms would sound a tocsin of public alarm, while their astute retention makes it difficult to perceive clearly the emerging substance of dictatorship. The dictatorship of Augustus in Rome is typical of how dictatorship is generally accomplished entirely within the framework of free government. The Assembly of the People and the Roman Senate continued to function legislatively and to go through the motions of free government when, in fact, free government had

[1] *Ibid.*

ceased to exist. Indeed, as late as the third century A.D., after the empire had been in existence for more than two hundred years, there was still, in theory and name at least, a Roman Republic, of which the emperor was, theoretically, only the chief magistrate, deriving his powers from the Senate and the people, and with prerogatives limited and defined by law. Dictatorships in medieval Florence, in eighteenth- and nineteenth-century France and in modern Germany and Italy were all organized and conducted under the constitutional forms of free government.

Finally, the stealthy approach of dictatorship may be extremely difficult to detect because it may be precipitated by a political leader who actually believes in free government and who has no conscious intention of destroying it. There is strong evidence to indicate that Augustus in ancient Rome was swept along by an overpowering economic tide which forced him to assume dictatorial power in order to prevent social chaos.

CHAPTER III

WHY CAPITALIST SYSTEMS BREAK DOWN

FREE governments in history have perished as capitalist systems have broken down in unemployment and low standards of living for the people. What causes capitalist systems to break down? As one surveys capitalisms of the past, one fact stands out conspicuously. In every case, production could have been considerably expanded. The land could have produced more food. Manufacturing industries could have manufactured more conveniences. Commerce and transportation systems could have transported more goods. The raw material, the capital, the technology, the labor power, and managerial ability were all at hand for doing this. But those capitalist systems were distorted until they afflicted free peoples with extreme want in the midst of unrealized potential resources. Those ancient capitalist systems could not have given every free citizen a luxurious life; but their misfunctioning resulted in palpable waste of manpower, natural resources, and technology. If those facilities had been utilized, the free peoples would have had a much higher standard of living; and the life of free government might have been indefinitely prolonged. The economic force which has caused underproduction in every previous capitalist system is the *concentration of wealth.*

CONCENTRATED WEALTH

Concentration of wealth in a capitalist system takes three forms: (1) a concentration of land into great estates, owned by a few people; (2) a concentration of manufacturing in large units owned or controlled by a few people;[1] (3) a concentration of the control of savings—*i.e.,* capital—in the hands of a few bankers.

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[1]This statement must not be construed to mean opposition to the use of better methods of production which require more expensive machinery and in

Wealth does not have to concentrate in land, manufacturing units and capital to cause under-production in a capitalist system. A capitalist system is always made up of two broad markets—one agricultural and the other industrial. Agriculture exchanges raw materials for finished products from industry. But the capacity of agricultural producers to furnish more raw materials to expand production is conditioned by their capacity to buy back the finished products of industry. A concentration of wealth in manufacturing units and capital will establish a bottleneck in the system. The capacity of both agriculture and industry to consume will automatically be reduced. This will cause a restriction of production in the system as a whole. Conversely, a concentration of wealth in land will reduce the buying power of both agriculture and industry and contract production in the economy as a whole. In ancient capitalisms, wealth concentrated in all three of the categories of land, manufacturing units and capital. In a modern capitalistic system such as exists in the United States, we shall see that a concentration of wealth in industry and banking was sufficient to break down the system in unemployment and government spending.

When wealth is gathered into the hands of a few, it sets in motion three distinct forces which cumulatively bring about the death of a capitalistic system and the free government which it sustained.

1. It reduces systematically the natural capacity of a capitalistic system to produce. Eventually a point of crisis is reached. Private business becomes incapable of furnishing employment to a considerable part of the population. Government spending on a large scale becomes a necessity.[1]

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consequence larger factories. A growth in the size of the business unit based on the use of improved technology is fundamental to economic progress in a capitalist system. Where, however, competition is free and fair in a capitalist economy, progress in technology will beneficially increase the size of the business unit, but that size will be correlated with efficiency, the existence of numerous producers in industries, and a diffusion in the ownership and control of business. The economic power which results from this kind of industrial development cannot be employed to suppress competition and production. In the text we refer to unnecessary and inefficient size in the business unit accompanied by concentrated ownership or control in industry which is *the result of predatory financial and trade practices.* Such practices unfairly eliminate existing competitors and impose economic barriers which effectively prevent the rise of new ones. The economic power which this kind of industrial development puts into the hands of the few has been invariably employed in capitalist systems to suppress competition and production.

[1]Wealth is concentrated through the employment of various devices and

2. The political power exerted by concentrated wealth frustrates any attempt by democratic government to free the repressed productive powers of the economic system. Democracy exists in name only. The people have the right to vote but the control of government has passed into the hands of an oligarchy of wealth.

3. It destroys public morality without which no democracy can survive. Concentrated wealth drives a deep wedge through society, separating a small class of wealthy families from a rotting mass of people who are too dispirited by hunger, disease, feeble-mindedness and crime to have the energy or the hope of winning the battle for economic reform. Party machines arise to act as brokers between plutocracy and a numerous class willing to trade its votes for economic benefits. As concentrated wealth thus generates poverty, it provides the means for buying up elections and a people willing to be bought. Those in control of government cease to think in terms of the public welfare and become the servants of the plutocratic interests which have placed them in office.

The methods by which wealth is concentrated are invariably forms of robbery. As these methods flourish, a free people become discouraged with democratic government which permits their economic exploitation. When the crisis of government spending is precipitated under a leader who is trusted by the people, they blindly or indifferently invest government with enough power to crush democracy.

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practices. Some of these restrict production directly. Monopoly, for instance, will cause a direct restriction of production. Usury will also restrain production by increasing costs of production which result in higher prices and less general buying power in a capitalistic economy. A control of credit will be used to exploit business and stifle production. But the concentration of wealth which results from the use of such devices and practices *increases their effectiveness.* Concentrated wealth is used to extend their application in a capitalistic system, to beat back the efforts of other business men to break them up so as to get into markets, to protect them from political destruction. Ultimately, every device or practice which concentrates wealth contributes to a general restriction of production in the system. An increasing concentration of wealth generates an increasing concentration of income. This income must be largely re-invested or the purchasing power it represents will be withdrawn from existing markets—a result which will immediately cause a shrinkage of production. Concentrating wealth, however, systematically reduces the amount of sound investment outlets in a capitalistic economy. Eventually, concentrating income runs out of sound investment outlets, a jam in the investment mechanism of a capitalistic system is precipitated. The consequence is a contracted economy incapable of furnishing employment to the people. The precise effect of concentrating wealth on production will be considered more fully when the functioning of modern capitalism in America is examined.

WHY CONCENTRATED WEALTH IS THE CANCER OF FREE GOVERNMENT

There are four impressive reasons for believing that concentrated wealth is the economic force which destroys free government.

Reason One: Influence of Concentrated Wealth on the Forms of Government

Economic and political power are so directly related that the forms of government in history have corresponded to the degree in which the wealth of a nation is concentrated. There is no instance in history of an absolute monarch over a people among whom wealth was widely diffused. Invariably in an absolute monarchy wealth is concentrated to an extreme degree. Even in monarchy, the economic difference between the absolute and limited types is the wealth of the king. Where the wealth of the king overshadows that of any other individual in the realm, absolute monarchy exists. The Roman emperors did not become thoroughly despotic until they owned in fee simple much of the land throughout the empire and a considerable part of all business.[1] When monarchy became absolute in seventeenth-century France, the personal fortune of Louis XIV was the colossal fortune of the nation.

The origin of the early pharaohs in Egypt is clouded in the mists of history; but the origin of pharaohs with despotic power is clearer. Neville Ure in his *Origin of Tyranny* describes the origin of one of these despotic pharaohs. He was an individual who had made a colossal fortune in private business as a merchant and by means of his economic power he made himself pharaoh and then transformed the pharaohship into a complete despotism.[2]

Where, however, the wealth of the king has been small, his political power has been limited by the nobles who actually control the government.

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[1]The Roman Empire progressed from the "imperial dignity of Augustus" to the "de jure and de facto despotism of Diocletian and Constantine." From the third century A.D. the "attitude and prerogatives of the Emperor resembled those of Asiatic rulers." (Paul Louis, *Ancient Rome at Work,* page 229.)

It was the growth of the wealth and economic power of the emperors through extensions of the system of crown monopolies in industry and crown lands in agriculture which finally made the emperorship thoroughly despotic.

[2]Neville Ure, *Origin of Tyranny,* page 293.

Economic Origin of Royal Absolutism

The early history of France is full of instances showing the correlation between wealth and political absolutism. According to Tacitus, the primitive Germanic tribes possessed and cherished political liberty. In one of his essays he thus describes this democratic spirit:

They choose their kings by birth; their generals for merit. The kings have not unlimited nor arbitrary power, and the generals do more by example than by authority.

About *minor matters* the chiefs deliberate; about the *more important* the whole tribe. Yet when the final decision rests with the people, the affair is always thoroughly discussed by the chiefs. They assemble, except in the case of a sudden emergency, on certain fixed days, either at the new or the full moon; for this they consider the most auspicious season for the transaction of business. When the multitude think it proper, they sit down armed. Silence is proclaimed by the priests, who have on these occasions the right of keeping order. Then the king or chief according to age, birth, distinction in war, or eloquence, is heard, more because he has influence *to persuade* than because he has power to command. If his sentiments displease them (the assembly), they reject them with murmurs. If they are satisfied, they brandish their spears.

In these same councils, they also *elect* the chief magistrates who administer law in the various cantons and the towns. Each of these has one hundred associates, chosen from and by the people, who support him with their advice and influence.[1]

Tacitus points out the basis of this political freedom. The ownership of land was highly diffused. Though chiefs might have a few more acres than the average freeman, the extra acres symbolized only the rank of the chief and afforded him no economic power to coerce freemen. The non-acquisitive attitude of these primitive peoples towards wealth is stressed by Tacitus. Among them there was no eagerness for gold or silver and ostentatious wealth was unknown.

But as these tribes crossed into Gaul (ancient France) and settled down, plutocracies developed and absolute hereditary monarchs appeared. The history of the Frankish tribe is illustrative of what happened to the tradition of political freedom. This tribe conquered a large part of Gaul. It had kings but the early kings were not autocratic rulers. They were merely war chiefs under the control of

[1]Tacitus, *Germany and Its Tribes.*

popular assemblies. Within a few centuries, however, the war chief had evolved into an absolute monarch. This evolution is explained by the increased wealth of the war chief. When the war chief became far and away the richest man in the state, he became an absolute ruler.

Among the Franks, land was the principal form of wealth. As Gaul was conquered and rival tribes subdued, there was land and other booty to divide. The traditional principle of relative economic equality between the chiefs and the people was abandoned. The war chief tended to take a larger and larger share of war spoils for himself. The increasing domain of the war chief became known as "crown lands." Favorites of the war chief also fattened on this unequal division of booty, while the freemen warriors received negligible allotments or nothing at all.

As the war chief became economically more powerful, he grew more powerful politically. Finally, he became the richest man in the state, towering over any rival in the matter of land ownership or tenants. When this point was reached the old popular assembly of the earlier Franks had ceased to exist and the old democratic philosophy was dead. In its place was an absolute hereditary monarch. The Merovingian dynasty was one in which war chiefs evolved into despotic monarchs through the increase in the personal wealth of the war chief.

The Merovingian dynasty lasts for a while. Then its absolute powers suffer a decline. It is a decline in the personal wealth of the king which corrodes away his absolutism. The king made the mistake of giving away crown lands to favorites. Nobles had also obtained administrative offices in the kingdom and had used them diligently to make fortunes for themselves at the expense of good administration and justice. A shift in economic power from the king to the nobility occurred. The nobles became sufficiently strong economically to force from the king a "Magna Charta" which limited his absolute powers.

One office in the king's administrative system offered unusual opportunities to amass riches by looting government. It was that of chief administrative officer, called "Mayor of the Palace." The Mayor was in a position to sell offices, to take bribes for fixing up parties in their dealings with the government and to wheedle property away from the king. Soon the Mayor of the Palace became the richest man

in the kingdom. When this happened a new absolute hereditary monarchy was ready for birth.

Pippin III, in whose family the office of Mayor had become hereditary (the first political triumph of the increasing wealth of the Pippin family), reduced the Merovingian dynasty to such a pitiful state of impotency that Childeric, the king, was exhibited to the people once a year and kept in close confinement the rest of the time. Finally, Pippin threw off the mask and made himself king. For a time the enormous personal wealth of the Pippin fortune revived absolute monarchy. But in time this concentrated wealth was disintegrated by other crafty and fortune-seeking nobles, and absolutism declined again.

Economic Origin of Free Government

The historical sections which will follow will show in detail how the forms of government change as wealth is dispersed or concentrated. One will see that the great democracies of the world did not come into existence until a preceding concentration of wealth embodied in a tyrannical form of government had been dispersed to a point where a condition of relative economic equality among the people had been established.[1] One will see that concentrated wealth is diffused by various means. In Athens, it was forcibly distributed by an act of government. In Rome, war was the primary cause. In Venice, it was the pressure of the barbarian invasions causing refugees to flee the mainland and settle islands where they began life again under conditions of relative economic equality. In America, it was the existence of a frontier fabulously rich in economic opportunity. In modern Europe, the rise of competition in business was the prime factor redistributing wealth and forcing democratic government to the surface in nations that had been absolute monarchies.

On the other hand, one will see from historical facts, both in ancient and modern times, free governments passing into a plutocratic stage and then into dictatorship as wealth concentrates to a more and more extreme degree. From the evidence of history, it is difficult to avoid the conclusion that there is an almost mathematical

[1]Relative economic equality does not mean absolute equality. It permits differences in wealth between individuals. In the case of a few rich men the difference may be very substantial. But it does preclude the ownership of a high percentage of total national wealth by a few persons.

correlation between the forms of government and the degree of wealth concentration in a nation. In the world of today this theory can be convincingly tested. Of all the democracies of the modern world, that of Switzerland has been the most stable and thoroughgoing. In Switzerland, however, wealth has been highly diffused. According to John Gunther, Costa Rica has the stablest and most genuine democracy in Central or South America.

Every four years there are free, orderly and honest elections. The press is free and vigorous. It is said in Costa Rica that the people fight their revolutions in the newspapers. Civil liberties are highly respected and political prisoners are unknown. This remarkable democracy also has practically no army and no secretary of war. It is the boast of Costa Ricans that they have more school teachers than they have soldiers. Wealth too is highly diffused. The nation has the highest percentage of individual land owners of any Latin American state. There are few big estates, and eighty-five per cent of the entire land of the nation is held by small farmers.[1]

Perhaps the most backward country in either Central or South America is Paraguay. This nation is completely under the iron heel of a dictator. In Paraguay one finds an extreme concentration of wealth. One family is reported by Gunther to own fifty-two million acres.

Reason Two: Correlation of Concentrated Wealth with Poverty

Poverty means two things. It means that the people who do have jobs are barely able to live. It also generally means that a considerable number of the people are jobless. Poverty can generally be measured by the growth of slums in the cities of a nation. It is the factor which conditions a people psychologically for dictatorship. Where under free government a people have been able to make a reasonable living, they have been suspicious and fearful of dictators. When, however, they have been sunk too long in poverty, they are willing to follow any man who can give them food or a job. Poverty is thus the enemy of free government. Yet poverty and concentrated wealth are directly correlated in history. It is under despotic monarchy that the most extreme concentration of wealth is found, and it is in despotic monarchies that the standard of living of the people has been lowest. In ancient Rome the slums increased in size di-

[1] John Gunther, *Inside Latin America.*

rectly with the growth of concentrated wealth. On the other hand, whenever wealth has been relatively diffused in history, the people have managed to be employed and to eat fairly well.

Throughout history, concentrated wealth has always produced concentrated prosperity and diffused poverty. The story of the peoples of the earth moves from valleys where the wealth of the community is highly diffused to peaks where it is highly concentrated. In the valleys, the machinery of production and of exchange is often rude and inefficient. The best house is often, but not necessarily, a cabin of logs or a cloth and paper shanty. The richest man of the community is forced to work daily. But it is in the valleys that one finds neither luxury nor destitution. No one makes an easy living, but everyone can make a living; and no one who is able and willing to work is oppressed by fear of want. It is on the peaks that the tragedy of civilization is laid bare. On the peaks we find a few people enormously rich. Although improved technology exists, capable of multiplying production, production languishes, and the bulk of the people are crushed by poverty.

This enigma of progress and poverty was clearly perceived by Henry George, but his remedy fell short of a complete cure. It is not merely the unearned increment in land which has widened the gulf between Dives and Lazarus and has made the struggle for existence more intense under conditions of progress. The pressure of population on land values is only one of the means by which wealth concentrates. There are other ways, fully as formidable, which must be taken into account if progress is not to produce poverty.

In the history of Rome the correlation between concentrated wealth and poverty is well-defined. For some centuries, the people of ancient Rome succeeded in maintaining under free government a condition of relative economic equality. During these centuries, the average Roman was able to feed, clothe, and shelter his family fairly well. Unemployment and mendicancy were rare. In the twilight hour of this free government, however, when wealth had concentrated, Rome was a city of hideous slums and a hungry proletariat kept alive by the public distribution of grain. Yet during the period in which Rome grew plutocratic under the forms of democratic government, great advances in technological knowledge had taken place. The scientific means existed for producing more food, better

clothing, and better shelter for the people as a whole. This potential production, however, could not be realized. Instead, Roman democracy became afflicted with idle men, idle fields, idle capital, and a low standard of living for the people. The prosperity of the few increased enormously, but prosperity declined sharply for the masses. The poverty of the people became dire when wealth had concentrated still further. It was under the empire that Rome spawned "the man with the hoe, the brother to the ox, a thing that grieves not and that never hopes."

Reason Three: Evidence in the Modern World

In the modern world, the evidence is abundant and conclusive that the concentration of wealth is a basic factor in preventing production and generating unemployment. When concentrated wealth makes some business men much more powerful than others, the strong can thrive, not by promoting business, but by blocking production and the efforts of competitors. *Sooner or later, concentrated wealth makes it possible for a few men to stand legally across the market, to levy toll on industry and commerce, to prevent production, and to force upon a people an economy of scarcity.*

Reason Four: Evidence in the Ancient World

Even in economic systems of the past, the relationship between concentrated wealth and throttled production is sufficiently clear to be convincing. From time immemorial, some business men have striven not merely to make a living out of trade and industry but also to destroy their competitors and to keep others out of business. In the last half-century of the Roman Republic, for example, a substantial part of the agricultural land of the nation in the Italian peninsula was standing idle or was cultivated under conditions which discouraged productivity. The city of Rome was full of hungry and unemployed people, but the natural capacity of the land to produce food had been tragically restricted. There was no shortage of manpower to grow food. Agricultural science had progressed and stood ready to make two grains of wheat grow where only one had stood in earlier times. Why was this productive power not utilized? The reason is that the ownership of land had fallen into a few hands.

At one time in the history of the Republic, the land had been fairly well divided among the people. A few centuries later, this

situation was reversed and the land ownership was highly concentrated. A large part of the old agricultural population had been dispossessed of their farms and forced to go into the city. Immediately this ownership exercised a sterilizing effect upon the natural capacity of the land to produce food for the people. A good portion of the land, instead of producing corn, wine, cereals, and milk to feed thousands of Romans, had been put to other use by millionaire landlords. The people were left to eke out a bare existence in the slums of the city. The land had been used to make artificial ponds bigger than the Lucrine Lake; or to create vast pleasure parks and game preserves for the rich. Olive groves that once had produced a living for the small Roman farmer had been destroyed to make elaborate flower gardens or magnificent terraces. Of the free agricultural population remaining, most had become tenants barely able to keep alive under their onerous rents. A substantial portion of all Roman land stood completely idle. The rich owners had no need to cultivate it; so its natural productive power was kept in thralldom to symbolize the owner's greatness.[1]

A clear picture of why concentrated wealth destroyed production in the Roman economic system was given by the emperor Diocletian. This imperial monarch, the ruler of the ancient world, bewailed in a forthright address to the Roman people the successful schemes of rich Roman business men who had forced an economy of scarcity upon the people. Said Diocletian:

For who is so insensitive and so devoid of human feeling that he

[1]The absorption of productive agricultural land into enormous villa properties of the rich during the life of the Republic is particularly stressed by Horace, who lived in the last years of the Republic and on into the period in which it was destroyed by the dictatorship of Octavius. He speaks at length of the great "increase of villas and villa property in his time." . . . "Soon," he declares, "the residences of the rich will leave only a few acres to the plow."

Under the Empire the withdrawal of fertile agricultural land from production because of the creation of villa properties, is still more marked. One finds single proprietors owning four, five or even sixteen vast estates in Italy. These mammoth villa properties "occupied fertile land." They ought "to have been producing corn and wine." Actually "they stood as good as empty." These "huge pleasure parks, *which formed an appreciable part of Italy, and even of the provinces*, economically were *hardly more valuable than deserts*." They bore "nothing but flowers—more flowers than any owner could enjoy." Their purchase and maintenance "tied up a very large capital which, if used otherwise, might have averted the long winter which presently froze ancient agriculture, commerce and industry to their undoing." (William Stearns Davis, *Influence of Wealth on Imperial Rome*, pp. 171, 172, 174. The italics are mine.)

cannot know, or rather, has not perceived, that in the commerce carried on in the markets or involved in the daily life of cities, immoderate prices are so widespread that the uncurbed passion for gain is lessened neither by abundant supplies nor by fruitful years; so that without a doubt men who are busied in these affairs *constantly plan actually to control the very winds and weather from the movements of the stars,* and, evil as they are, they cannot endure the watering of the fertile fields by the rains from above which bring hope of future harvests, since they reckon it their own loss *if abundance comes through the moderation of the weather.* And the men whose aim it always is to profit even from the generosity of the gods, *to restrain general prosperity,* and furthermore to use a poor year to traffic in harvests . . . *men who, individually abounding in great riches which could completely satisfy whole nations, try to capture smaller fortunes and strive after ruinous percentages. . . .*
Who, therefore, does not know that insolence, covertly attacking the public welfare—wherever the public safety demands that our armies be directed, not in villages or towns only, but on every road—comes to the mind of the profiteer to extort prices for merchandise, not fourfold or eightfold, but such that human speech *is incapable of describing either the price or the act;* and finally that sometimes in a single purchase a soldier is deprived of his bonus and salary, and that the contribution of the whole world to support the armies falls to the abominable profits of thieves, so that our soldiers seem with their own hands to offer the hopes of their service and their completed labors to the profiteers, with the result that the pillagers of the nation constantly seize more *than they know how to hold.*[1]

Diocletian, for all his purple toga and imperial dignity, sounds a good deal like the Robert M. LaFollettes, the William Jennings Bryans, and the Woodrow Wilsons of our day. He excoriated the rich men of his era for stifling production and impoverishing the people as thoroughly as many liberal leaders in our own democracy have done.

WHY WEALTH CONCENTRATES IN A CAPITALISTIC SYSTEM

In every capitalistic system, methods have appeared and flourished for the amassing of riches which have always been unjust and, strange to say, generally unlawful. The application of these methods

[1]Quoted from *Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume V. My italics.

results in the ownership of *unearned* wealth and in the unfair diversion of wealth from one owner to another. Generally speaking, wealth can be earned in a capitalistic system in only one way. A useful commodity or service is produced under conditions of fair competition. Since a capitalistic economy is an exchange economy, the wealth produced by one business man is exchanged for the wealth produced by others. It is the essence of earned wealth that it be exchanged under conditions of *fair value*. The measure of fair value is again fair competition. If a fortune maker in a capitalistic system produces $1,000,000 worth of wealth, and exchanges it for $1,000,000 worth of wealth produced by other people, the community has $2,000,000 of wealth. But if our fortune maker can produce $100,000 worth of wealth and exchange it for $1,000,000, the community has only $1,100,000 of wealth while our fortune maker has gained $900,000 of wealth to which he is not fairly entitled. This is the phenomenon of concentrated wealth. Where wealth is *earned* in a capitalistic system, prosperity at the top automatically generates prosperity at the bottom. No one loses in the process. Business men can become relatively rich, but the vast fortune is restrained. It is difficult for wealth to concentrate to an extreme degree or for rich men to repress production. No man can become rich without improving the economic condition of the people and production is firmly channeled to raise standards of living. But when fortune makers can get title to more wealth than they put into the pot of production, the difference has to be made up from the property holdings of other people.[1] This has been the secret of great fortunes.

There have been three chief sources of unearned wealth in capitalistic systems: (1) industry and commerce; (2) government; and (3) land.

Industry and Commerce

One of the oldest techniques has been the manipulation of exchange values. Suppressing competition has been a prolific source of great business fortunes. Monopoly causes a tremendous distortion of exchange values. The monopolist through his power to dictate price can force consumers to pay a higher price for his product or service than they would have to pay under conditions of competi-

[1]This principle does not apply to wealth which is inherited. Limited inheritance can be soundly defended on other grounds.

tion. The effect of the higher price is to compel other people to give more of their wealth in exchange for his product than they would otherwise have to do. Thus the monopolist appropriates other people's wealth.

The monopolist millionaire was known to early and to late Greek capitalism. Theagenes, who established tyrannical government in Megara, is believed to have derived his enormous wealth from a monopoly in wool. Thales, the philosopher, made a large fortune by cornering oil, thus anticipating the Rockefellers by many thousands of years. There is extant a celebrated speech of Lysias, directed against monopolists, and Aristotle focused public odium against the monopolist who made himself rich by buying up all the olive presses in a certain year and charging extortionate prices for their rental. Monopoly is a powerful instrument for restricting production in a capitalist system. It was the scourge of Roman economic life under the emperors. Under monopoly, production in the economic system was contracted to such length that the people lived in appalling poverty so that they actually lost some inches in their physical stature.

Monopoly, however, is only one way of distorting exchange values. The business man who can palm off shoddy for genuine goods or who is able to exchange two-thirds of a bushel for the value of a bushel, can take wealth as unjustly and as effectively as the highwayman who pokes a gun into the ribs of his victim. The adulterator of goods and the falsifier of weights and measures have thriven on appropriated wealth. In the modern world, the evidence is abundant that great fortunes have been built on misbranded textiles, impure foods, adulterated liquors, "miracle" cosmetics, short-weight merchandise, and dishonest securities, generally with a slime of lying advertising over all.

Although such activities in ancient times were not so voluminously recorded as they are in the modern world, there are records of business men who flourished on deception. In ancient Greece and Rome, we hear of state inspectors of wines, olive oil, and bread, and of persistent infractions of the laws prescribing standards of quality and units of measurement. Hyperbolus, in Athens, amassed a large fortune by the simple method of adulterating silver with lead. The manager of the state silver mines in Laurium, he boldly debased the Athenian coinage by mixing lead with silver and concealed his profit from the people. The millers of medieval Florence are often referred

to as having odious reputations because they "held back" a substantial part of the raw grain in each grinding.

Usury, too, has been an effective device for distorting exchange values. In the ancient world, usury was a prolific source of great fortunes. Usury made it possible for the money lender to multiply his wealth many times. The Roman people fought a losing battle with usury which devoured the small business and independent farmer. By the time of Julius Cæsar (50 B.C.), small business had been crushed by usurious loans, and the middle class had been wrecked.

In our own country, usury has been the basis of many fortunes, and this ancient method of extortion is still very much alive in the United States at the present moment.[1] Monopoly, adulteration, false weights and measure, and usury are only a few techniques which have enabled business men in every capitalist system to acquire wealth without earning it. The bewildering complexity of business in modern capitalism has greatly increased the opportunities to force, cheat, or maneuver people out of their property. In modern capitalism appeared the devices of holding companies, stock-market pools, short sales, protective committees, investment trusts and numerous others which were utilized not for legitimate purposes, but to capture the wealth of other people. It is interesting, however, to observe that in the ancient world, the art of expropriation could be at times exceedingly crafty.

The story of Joseph in the Bible is a familiar case. The pharaoh used the clever wits of a man from the East who understood the crop cycle which runs in Egypt to this day. Joseph acted as chief economist to the pharaoh. He taught the pharaoh how to speculate on the business cycle and how to take advantage of the ignorance of the people to dispoil them of their property. In good times, he stored up surplus grain. In hard times, he squeezed the starving people and acquired title to their cattle and their lands. Here in this familiar Bible story we get a glimpse of high finance used by a clever manipulator to reduce to penury a whole nation of yeoman farmers. That was long ago, but the methods are the same today.

Crassus, the richest man in Rome, developed another ingenious

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[1] An investigation by the anti-trust division of the Department of Justice in 1942 revealed that hundreds of millions of dollars are still lent at usury rates varying from exorbitant to fantastic, though in many cases the usury is concealed by deceptive practices.

technique which, despite its classical flavor, would make him a welcome guest in certain high places today. Crassus, at the present moment, is undoubtedly a crony of America's Jay Gould in that realm where they now dwell. It is recorded that Crassus had a band of slaves trained as fire fighters. Throughout the city of Rome he established "watch-posts." When fires broke out he would buy up the property burning or that "next to the blaze" at a moment when "the owners were delighted to sell for a trifle." The bargain once struck, his "private firemen at once fell to work to save the new property of their master."[1] That Crassus instigated fires is not definitely asserted, but there is a suspicion that his fire-fighting brigade was not over-scrupulous. At any rate through the use of this fortune-making technique, the "greater part of Rome at one time or another fell into his greedy hands."[2]

Operations of this sort required, of course, that the government refrain from interference with private initiative, even when it appeared in such novel form. Crassus, of course, had so much money that the government did not dare to interfere with him. Modern refinements of this trick are common. The Erie Railroad, for instance, played the role of "villa" to the Gould fortune. The game was to start rumors of disaster, buy in the stock at the bottom, then start a new set of rumors of high profit, sell out at the top, and repeat.

Cicero embalmed for posterity in his writings the cunning business technique of one Pythius, a banker who defrauded the simple nobleman Canius in a large real-estate transaction. Canius was dickering with Pythius to buy some waterfront property. Pythius bought fish from the fish market and hired fishermen who were to be seen pulling up nets filled with the market fish at the time Canius was inspecting the property. Cicero chuckled over the robbery perpetrated by Pythius, but then we shall see that Cicero, too, had his own rackets which made him one of the large fortunes in the Roman state.

Government

Another fertile source of great fortunes in all capitalistic systems has been the exploitation of government. Free government in Rome, Athens, Venice, and Florence was constantly used by business men

[1] William Stearns Davis, *Influence of Wealth on Imperial Rome,* page 69.
[2] *Ibid.*

to create large fortunes. As far back as Republican Rome, the picture is remarkably clear. Fortunes were made in time of war by selling the Roman government defective or shoddy goods or by charging profiteering prices. Fortunes were made out of war booty. Theoretically, the booty from wars was by an ancient law of the Roman state reserved to the Roman people. At one time in the history of the Republic, Roman generals were required to turn over the greater part of their war booty to the state, keeping for themselves only a minor part, and the law also required that part had to be dedicated to religious sacrifices.

Under this condition, war booty had played no role in fortune making. But this commendable practice fell into disuse. Roman generals and their staffs began to seize booty and make no accounting to the state and a military career became the stepping-stone to great wealth under the Republic. Under Pompey, for example, twenty *legati* received nearly two hundred thousand dollars each, while Demetrius, Pompey's personal adviser and secretary, made off with war booty to the extent of four thousand talents. In Cæsar's Gallic war, Labienus, his chief lieutenant, and Mamurra, his chief engineer, made great fortunes. The great mansion of Mamurra on the Palatine Hill became one of the show places of the ancient world. The practice of seizing war booty was not "legalized" but was openly condoned. In the dying hours of the Republic, bills were frequently introduced into the Roman Assembly to compel certain generals to disgorge themselves of their war wealth in accordance with the ancient and unrepealed law of the land.[1] Invariably these bills were side-tracked or Roman plutocracy rallied paid voters to vote them down.

The Roman state had at its disposal much profitable business, such as contracts for building roads, bridges and temples, for feeding the army, for furnishing military supplies, for the collection of taxes. The Roman state, too, had valuable property to lease or sell, such as silver and copper mines, forest reserves, grazing and farm lands, and marble quarries. This latter kind of property had been acquired in conquests, and the Roman state acted as its trustee for the Roman people. Rich were the rewards of the crafty men who knew how to

[1]A typical bill read: "to confiscate all moneys that have been taken by way of war booty and all crown gold not given to the treasury or used for public purposes." (*Economic Survey of Ancient Rome,* edited by Tenney Frank, Volume I, page 396.)

influence public officials and to obtain the state's property for a song. In Rome, as in America, adventurers found one way or another to grab these resources in violation of existing laws. Eventually the Roman government actually approved these illegal seizures of state lands and they became the basis of many great landed fortunes. Rich, also, were the gains of those who knew how to shake the Roman state down for contracts to perform public services on terms which guaranteed great wealth.

The taxes of Rome were farmed out to private persons for collection. These tax syndicates (*publicani*) notoriously bribed government for the profitable privilege of robbing taxpayers. They became in time the terror of the Roman middle class and of the peoples conquered by the Roman state. Sulla, for instance, is said to have let a contract for the collection of an indemnity from a subject state. The contract was let to a Roman corporation for what would amount to twenty million dollars in modern money. The corporation then proceeded to collect this sum six times over for itself and was about to try a seventh time when Sulla intervened because he feared there would be nothing left for the Roman state in the future.

Other syndicates were organized to operate state industries such as the mining of silver and copper in Spain and North Africa, the collection of port dues and the construction of public buildings and roads. These enterprises, called Knights' corporations, became a royal road to riches through exploitation of the state. As Rome extended her dominion over countries in the east, the corporations snuggled close to government and secured special favors in trade and the right to lend money at usurious rates of interest. Contracts of this sort were awarded not in the public interest, but to the business group that could play the most practical politics; and legislators became increasingly calloused to bribery.

Many Romans made fortunes in provincial governorships, where they exercised a free hand in looting subject peoples. One way was to pocket part of the tax money that was remitted to the Roman Senate. Another method was for a Roman general to requisition grain and to pocket the campaign expense money allowed him by the Roman Senate. A more ugly form of requisition was to collect or accept from fearful provincials money for triumphal games which never took place.[1]

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[1] *Ibid.*, page 397.

Fortunes were made by selling votes systematically on election days. Roman politics had rich Murphys, Pendergasts, and boss Tweeds who organized vote selling on mass production lines. Voters were organized into "claques" which their bosses would offer for a price to candidates. On a deal being made, the claque members were marched to the polls and after the election the honorarium was distributed—the boss, of course, taking the largest part. Roman politics, too, had many officials who sold justice to the highest bidder and often retired from office with large fortunes.

For example, Gabinius and Scaurus, two of Pompey's lieutenants, accepted three hundred and four hundred talents, respectively, from one Aristobulus of Judea, who wished to displace his elder brother as high priest. Even more striking was the corrupt career of Clodius, who was relatively poor until he became tribune. Soon thereafter, he appeared as a man of very large estates. Cicero says that, while controlling the legislative assembly, "Clodius sent his agents to collect money from client princes for promises of legislative favors."[1] A new wrinkle to this racket was added by the great Mark Antony. After the death of Cæsar, he came into possession of Cæsar's seal and proceeded to sell to client princes favors that had already been granted by Cæsar.[2]

Other great fortunes were made by bidding in at low prices property confiscated by the state. Crassus, the richest Roman, owed his huge fortune chiefly to the Sullan proscriptions, which resulted in the confiscation of numerous estates. Crassus, a friend of Sulla, was on the inside and bought up many of them for a song. During his business career Crassus also acquired "numberless silver mines" from the state on terms which insured him huge profits.

This picture of the exploitation of the Roman state thousands of years ago is in substance a picture of all free governments from ancient to modern times. In the United States, taxes are not collected by syndicates. There are no Knights' corporations. America has few colonies and their administration has not been the basis of large fortunes. Nevertheless, robbing the government in peace and war through exorbitant war profits, plundering of the national domain, obtaining of valuable franchises and other privileges for little or nothing, has been a fertile source of great fortunes in America.

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[1] *Ibid.*
[2] *Ibid.*

Scores of public investigations stretching over more than a century amply confirm this fact.

Land

Land, too, has spawned many unearned fortunes. A land owner who has managed to squat in the path of a growing community has invariably found that with the increase of population, the value of his property soared without his having to lift a finger. He might sit down and smoke his pipe or lie around "like the lazzaroni of Naples" or the "leperos" of Mexico, without doing one stroke of work, without adding one iota to the wealth of the community, and find himself, with the passage of time, a very rich man indeed. Many a great fortune in American history has been the result of owning land about which a community multiplied.

Land affords a perfect illustration of how wealth can be acquired without producing any wealth. Other forms of wealth require human labor before they can be brought into existence. The surface of the earth, however, was in finished form when man appeared to found community life. Through mere ownership of land, some men have been able to levy a vast toll on the productive efforts of others.

Early in the history of America, when cities began to grow, land increased in value without any work done by the owner. The Astors, the Rhinelanders, the Goelets, the Schermerhorns, and the Vanderbilts laid the foundations of their great fortunes in the political corruption of city governments as a means of grabbing city lands. James Gordon Bennett, editor of the *New York Herald,* sounded a discordant note in the chorus of admiration that hallowed the death-bed of one of these men. Said Editor Bennett:

> One half of his immense property, ten millions, at least, belongs to the people of the city of New York. During the last fifty years of the life of John Jacob Astor, his property has been augmented and increased in value by the aggregate intelligence, industry, enterprise, and commerce of New York fully to the amount of half of its value. It is plain as that two and two make four, that half of his immense estate, in its actual value, has accrued to him by the industry of the community.[1]

The relationship of land to unearned wealth, too large a subject for full discussion here, is merely recorded as one of the three great

[1]Gustavus Myers, *History of the Great American Fortunes.*

taproots of concentrated wealth. It is interesting to note, however, that the ancient world knew nothing of this relationship. The medieval world, too, was completely ignorant of its existence. It was not until the nineteenth century that people became aware that land had been for thousands of years a powerful medium for concentrating wealth in civilizations. Henry George taught many forward-looking men and women to recognize that land values created by community effort are a source of unearned wealth. He contended that ground rents may not fairly be paid to anyone except society, which, by its presence, causes the scarcity value of land. His followers have modified his theory, permitting land to be privately owned but demanding that it be taxed a substantial amount of any increase in its value caused by the growth of population, relieving the owner of all taxes on man-made improvements.

George's theory has stood the test of time. Great economic thinkers, famous lawyers, great political figures, such as Theodore Roosevelt, have conceded the soundness of the George thesis. His theory, unfortunately, has remained merely a theory. There has been little progress in applying a nation-wide system of taxation that would appropriate to the benefit of communities the rise in land values which is caused by the growth of population.

Many legends have been written about the superior efficiency of the men who made great fortunes in capitalist systems. The sober truth is that great riches have generally not been the reward of unusual business ability, but of unusual opportunities to hold up the public—opportunities which democratic government should not have permitted. The exploitative techniques by which wealth has been amassed have, in all ages, closely resembled the methods of the thief.

The economic objection to the thief is that he gets something for nothing. This is precisely the result when wealth concentrates. Sometimes men in high places have perceived the essential similarity between the methods of the thief and those of men who have made great fortunes out of industry and trade and government. In 1932, the Federal Trade Commission made an investigation of the electrical-utility industry. It uncovered scores of techniques by which investors had been defrauded of hundreds of millions of dollars. Referring to this celebrated investigation, Governor Franklin D. Roosevelt said in 1932:

Instance after instance of pillage, deceit of the public and even of the

prostitution of public agencies and officials may be found in the files of the Federal Trade Commission investigation of public utilities. The record is convincing. It is so voluminous that anyone may pick out examples to convince himself. I will add that nothing more atrocious in the way of thievery inside the law has ever been successfully attempted against the American people.[1]

The problem of regulating techniques which have exploited trade, industry and government have never been beclouded with any great uncertainties about their unjust or immoral nature. Indeed, in all free governments of the past, one finds them in general condemned by existing law. Their success was accomplished in defiance of law, which adds to their immorality the taint of illegality. One important conclusion can now be drawn. If in the past free government had vigorously suppressed the exploitation of business and government, if a sound system for regulating unearned income from land had been applied, it would have been impossible for wealth to have concentrated to an injurious degree in capitalist systems.

Relative inequalities in wealth would have developed and would have stimulated business efficiency—but the huge fortune would have been effectively hindered. There has always been enough business talent in every free nation of the past which, if it had been given the opportunity to compete fairly for the rewards of business enterprise, would have insured that those rewards did not concentrate in a few hands. But for concentrated wealth, the life of free government in history would have been considerably lengthened. To what greater heights civilization might have risen under the stimulus of less poverty and want among the people, one can only guess. But that the loss in human progress has been tremendous there can be little doubt. Concentrated wealth has cost the world untold billions in new ideas, in lost production, in stunted minds, diseased and suffering bodies, and crime.

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[1]Campaign Address of Franklin D. Roosevelt on Public Utilities, Portland, Oregon, September 21, 1932.

CHAPTER IV

TWENTY-THREE HUNDRED YEARS AGO: *GREECE*

"IN THE beginning," says Hendrik Van Loon, "the Greeks were equally rich and equally poor."[1] During the Homeric period, Greece was a peninsula dotted with numerous small independent communities, ruled in large part by free citizens. The people in these communities lived in a state of primitive agrarian capitalism and relatively free government. Land, the chief form of wealth, was fairly evenly divided, so that the richest and poorest holders were not many acres apart. Every farm was practically self-sufficient and privately owned. Primitive markets also existed. A few industries —such as armor making, stone and marble building operations, cooperage work, the fabrication of leather goods, wood carving and fine pottery making—were specialized callings manned by independent artisans who exchanged their wares for the surplus food and clothing and raw materials produced by farmers. Purchases and sales were made with oxen or with bars of iron or bronze as money. There were rich men in Homeric Greece. But they were merely prosperous farmers who were not at all averse to working in the fields with their men[2] while their wives sat at the spinning-wheel or washed clothes at the river's edge. Odysseus, the famous warrior, was a marvelously skilled carpenter and joiner. He made his own bed and with his own hands built the boat that was to take him to Calypso. Another great chief cut his own leather and made his own shoes. But the wealth of such Homeric chiefs did not prevent the average man from making a living because of the substantial diffusion of wealth.

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[1]Hendrik Van Loon, *The Story of Mankind.*

[2]There existed in Homeric Greece a class of free farm hands who hired themselves out at harvest time or contracted to do special jobs. (Jules François Toutain, *The Economic Life of the Ancient World,* page 11.)

This condition of relative economic equality was reflected in comparatively free government. The Homeric monarch was no despotic monarch. He was compelled by custom to consult a council of the Elders (the boule) or chiefs. He must "ask their opinion, and if he fails to obtain their consent he has no power to enforce his will." Even when he had obtained the consent of the council, "the proposal awaits the approval of the assembly of the people (the *agora*)."

Homeric government was not perfect, nor was the time of Homer an ideal age, in which all men were inflexibly just. Although the Homeric Greeks were people with high standards of morality and courage, they were Adam's sons. From the lips of Homer, we hear of the "tremendous violence of the autumnal storms" which the poet declares are the wrath of Zeus against the judges "who disgrace the *agora* with their wicked verdicts."[1] Hesiod complains bitterly that some members of the boule were ardent bribe takers.[2] But in Homeric Greece the average man could work and eat if he was industrious, and one notes that this advantageous condition is correlated with a wide diffusion of wealth.

THE RISE OF OLIGARCHY

Somewhere in the Homeric period, industry and commerce began to expand. Previously trade had been local, except for the importation of a few metals, brought in by the Phœnicians, the "peddlers of the sea." Suddenly this lethargic economic society was jolted by the appearance of silver money, believed to have been first coined in Lydia. Oxen and bars of iron and bronze were quickly displaced by this far more effective medium of exchange. Trade increased and markets grew. The number of artisans multiplied and the variety of their wares. The hamlets of Homer's day developed into cities. The sons of simple farmers roved the sea in their black ships, trading in foreign ports.

Industry and commerce, however, promptly opened the way for some men to grow very rich by exploiting the wealth and labor of other men. Techniques quickly appeared for acquiring property unfairly and on a large scale. Where wealth is diffused in an agrarian

[1] George Grote, *A History of Greece,* Volume II, page 74.
[2] *Ibid.,* page 73.

society, it is difficult to concentrate it. Robbing a man of his land is obvious and dangerous business. Furthermore, if successful, it results only in a small accretion to the robber's fortune. For robbery to pay large dividends it would have to be systematically applied and over a long period of time—a process which the community would be certain to recognize and resist. Industry and commerce supply techniques which can suck up wealth *in far greater amounts* and which are more difficult for the average man to understand or combat.[1] The usurer can capture a number of farms in a single day, or their equivalent value in money profits unfairly earned. In the time of Solon, we hear complaints about false weights and measures, counterfeit money, rigged markets, buyers deceived by mercantile shoddy, usury, debt and foreclosure fully developed as high-powered devices for concentrating wealth. Great inequalities in wealth rapidly appeared in the new Greece of industrial capitalism. In time many Greek cities became full-fledged plutocracies with a rotting mass of poverty-stricken citizens and slaves. The condition of relative economic equality which had characterized Greek life at the time of Homer vanished. At the same time one finds concentrated wealth correlated with oligarchic government. The Homeric *agora* disappeared, and the people lost their ancient right to a voice in the government. The right to participate in government was limited to rich property holders.

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[1]The capacity of predatory money-making techniques in modern industry and commerce to suck up wealth in tremendous amounts can be illustrated endlessly. Furthermore, some techniques are more effective than others. The usurer can amass far greater wealth than the farmer. The manipulator of corporations can make more money than the usurer. The monopolist can outstrip the manipulator of corporations.

The history of one of the greatest fortunes in America is interesting because it shows a variety of techniques at work. This fortune starts with a God-fearing immigrant who came to America in search of economic opportunity. He acquired a small farm and on it he worked hard, dreaming only of a modest competence in his old age and a life which would commend him to the Lord on the terrible day of Judgment. He believed in farming as the best opportunity to lead an honest and righteous life and tried to persuade his son to continue in his footsteps. But the son went to the city and became a usurer and money lender. A number of years later, he could write his gnarled old father that he had made more money in one day than he (his father) had made in a life of back-breaking labor on the farm. This son died, leaving a fortune of several millions. His son learned how to employ more high-powered devices for amassing wealth. He became a monopolist and manipulator of corporations. There came a time in his life when in one day he made more money than his father had made in a lifetime of heartbreaking money lending and usury.

THE RISE OF TYRANNY

During the period 650 to 500 B.C., despotic government appeared in many Greek cities. Oligarchy was trampled in the dust and dictators took over. The economic origin of these dictators is clear. The taproot of tyranny in ancient Greece, where oligarchies were transformed into dictatorships, was exactly the same as it was in ancient Rome, medieval Florence and Venice, modern Germany and Italy, where free governments were transformed also into dictatorships. The Greek tyrants got their opportunity for tyranny from capitalistic systems which had broken down in unemployment and economic distress for the people under concentrations of wealth. Many Greek cities were full of unemployed workers. In agricultural regions, independent proprietors had succumbed to tenancy and, in many cases, to outright slavery. Before a broken-down capitalist system can be utilized successfully in a free government as a springboard to dictatorship, two other conditions must be present. A leader must emerge championing the economic misery of the people and promising them relief. The friend of the people then makes the people docile to his will through government spending which gives them jobs. Under this soothing treatment, the democratic process is then used to destroy democracy. The people invest their friend with enough economic power to control completely the forms of free government and the emerging dictatorship becomes firmly entrenched in power.

With minor variations, but in substantially the same manner, broken-down capitalisms in oligarchic Greece became springboards to dictatorship. The emerging tyrant in almost every case championed the economic plight of the people and promised them relief. This fact led Plato to comment:

> When a tyrant comes into being the root he springs from is the people's champion and no other.

Before the tyrant could take over the government, however, force was necessary. The oligarchies were overthrown by military coup d'états. These were because in the oligarchies the people had no power to vote. The only way the people could assert their will in these oligarchies was by force. In a free government, the means exist for the people to invest their champion with dictatorial power, peace-

fully and constitutionally. That is why free governments have expired without violence in history. However, though the tyrants established themselves in power through violence, the result was accomplished fully with the consent of the people. Had these oligarchies been democracies, the tyrants would have risen peacefully to power by vote of the people in the same way that Augustus and Hitler made themselves masters of democratic government.

The people were eager to embrace one-man government because it alone offered them economic hope.

The tyrants were invariably very rich men who had made great fortunes out of industry and commerce. It was because of their great personal fortunes that these men were able, first, to curry favor with the people by bestowing gifts upon them and, second, to pay for their programs of spending to furnish the people with jobs after they had taken office. The tyrannies were all bottomed on large spending by the dictator out of his personal fortune; so that the people were converted into an army of faithful political employees of the state. A modern dictator like Hitler does not have to be a rich man. He can use other people's money through the tax machinery of modern government or by exploiting public credit to give jobs to the people. But the early Greek tyrants paid for this relief work out of their own pockets. This appears to have been a defect in the structure of these ancient tyrannies, for a number of them blew up as the personal fortune of the tyrant exhausted itself in public spending.[1]

Thus Sophocles warns would-be dictators in ancient Greece from hankering after the supreme power in the state unless they have the private means to support an army of political henchmen: "Is it not folly," says Œdipus to Kreon in the *Œdipus Tyrannus* of Sophocles, "to seek a tyranny, a thing that is gained only with a host of followers and money?"

When Theognis, who had a passionate hatred of tyranny, wished to prevent the rise of a new tyrant in his home state of Megara, he warned the people not against violence, nor eloquence, nor against rashly appointing a lawgiver, but against men of great wealth.[2]

[1]In Athens the tyranny of the Peisistratids expired precisely at the point when this dynasty lost its rich silver mines to the marauding Persians. The tyranny of the Tarquins in ancient Rome came to an end as the last of the Tarquins exhausted his private fortune in public spending. (Neville Ure, *Origin of Tyranny,* pages 292 and 295.)

[2]Neville Ure, *Origin of Tyranny,* page 8.

The relationship between government spending on economic relief and the life of the Greek tyrannies is abundantly clear. The chief form of government spending was on great public works. Peisistratus, the Athenian tyrant, was an ardent builder. Polycrates, who became tyrant of Samos, was famed as a builder. Polycrates also sponsored the idea of having state employees provided with amusements of a not too elevated type. Holidays and drunkenness, free bread and wine, were frequent under his régime. Neville Ure, a profound student of ancient Greece, sums up the connection between public works and tyranny in the following statement:

> The tyrants themselves were repeatedly found making it part of their policy to keep their subjects employed on big building projects. In more than one case we shall see their power collapsing just when this policy becomes financially impossible. Probably the tyrants pursued this industry policy because, to quote an expression used in another context by Plutarch, "stimulating *every craft* and *buying every hand,* it made practically the whole city wage earners employed by the government of the state."[1]

That the tyrants were big business men who had made fortunes in industry and commerce before bidding for the supreme power in their local states can be established by citing a few examples out of many. Peisistratus had accumulated a large fortune from silver mines in Laurium and Thrace. Polycrates appears to have been a veritable DuPont or Rockefeller in his business life. From his father, a wealthy shipbuilder, he inherited one fortune. With this start, he branched out into various other fields of enterprise. He developed an extremely profitable business "lending expensive coverlets and drinking vessels to those who were holding weddings or entertainments on a particularly large scale."[2] With his brother, he was associated in a thriving wool business, which included the making of costly cloaks. He also appears to have had large metal interests. Orthagoras, who set himself up as dictator in Sicyon, was a wealthy butcher and the son of a wealthy butcher.[3] Theagenes, the tyrant of Megara, appears to have made a great fortune as the result of a corner on wool, the staple product of his city.[4] Aristodemus, the tyrant of Cumæ, owed his tyranny largely to the fact that his private means were so great that he was able to distribute large sums

[1]Neville Ure, *Origin of Tyranny,* page 14. My italics.
[2]*Ibid.,* page 79. [3]*Ibid.,* pages 257 *and* 258. [4]*Ibid.,* page 296.

of money among the poorer classes of the state.[1] In Assos and Atarneus, the first tyrant was the powerful banker Euboulos. He had a favorite slave called Hermias whom he emancipated and made his successor. The tyranny of Hermias, however, appears to have been the rule of a clique with Hermias controlling the state backstage. An inscription in the British Museum speaks repeatedly of "Hermias and Company, Bankers and Despots."[2]

ECONOMIC ORIGIN OF ATHENIAN DEMOCRACY

Let us now turn to a brief case history of ancient Athens. The history of Athens is important because thousands of years ago the Athenian people developed one of the greatest free governments in history. Today, in spite of all our vaunted modern progress, that little democracy tucked away in a nook of the ancient world is still one of the wonders of civilization. Favorable economic conditions brought it into existence and unfavorable ones drove it on the reefs of dictatorship. A dispersion of wealth gave it birth and a concentration of wealth entombed it.

The thriving city of Athens was the capital of this ancient democracy. The Athenian state, however, included a larger area. This larger area in ancient times was called Attica and originally contained a number of autonomous cities, each ruled by a separate king in the Homeric period. Athens grew to be the largest city and it was Theseus, one of the kings of Athens, who effected "the great revolution whereby the whole of Attica was consolidated into one government with Athens as the capital city."

In Attica, as in other parts of Homeric Greece, the rise of industry and commerce caused a concentration of wealth which expressed itself politically in oligarchic government. The people lost their Homeric right to participate in government. The control of government passed into the hands of a small group of persons with substantial property interests. These persons, called *Eupatridæ,* were alone eligible to hold office in the state. The *Geomorri* and *Demiurgi,* the poorer farmers and artisans, the bulk of the population, were without any political power.

The oligarchic government afforded full freedom to predatory

[1] *Ibid.,* pages 278 *and* 279.
[2] *Ibid.,* pages 280 *and* 283.

industry and commerce.[1] A law was early enacted which permitted loans on the security of the debtor's person. The door to slavery was thus opened wide. The voteless people were also at the mercy of a class of judges who occupied a unique position. The law was unwritten and undefined until the judges ruled on a case, and then the judges could change their minds as often as they wished. This judiciary, representing the interests of the wealthy, naturally protected rich men and the predatory practices which had developed for sucking up the property of the voteless people.

Wealth concentrated to an extreme degree as the people were steadily dispossessed of their property. A few families acquired most of the arable land. The old freeholder class of Homeric Attica was destroyed or reduced to the status of impoverished share-croppers or slaves. Artisans found it increasingly difficult to exchange their products with farmers for food and raw materials. Town and countryside were held apart by the intervention of concentrated wealth which took its usual toll in depressed agriculture and chronic unemployment among city workers.

As the people became more wretched, the rich men of Attica grew fearful of revolution. Two reformers appeared who tried to head off the rise of a friend of the people and his seizure of supreme power with the consent and help of the embittered people. We mention these reformers because they typify futile philosophies of reform which have plagued the modern world.

One was Draco, drafted by the rich men of Attica to hold the people down. He represents a mental type found in all civilizations since the first man began to exploit his neighbor. Draco believed that the root of the trouble was that the people in general were idlers without the ability to be successful business men and envious of their betters. What was needed was a vigorous law code which would intimidate the lazy and untalented from attempting to disturb the peace and prosperity of the rich. He drew up a criminal code which made every offense against property punishable by death. The man who stole an apple or cabbage because of hunger was given the same punishment as the robber of temples or the mur-

[1]The extreme predatoriness of this period is stressed by George Grote (*History of Greece,* Volume III, pages 94 and 95):

"The conduct of the rich, in regard to money sacred and profane, in regard to matters public as well as private, being thoroughly unprincipled and rapacious."

derer. It was beyond Draco's mentality to see that the special capacity which made some men far richer than others was an ability to force, cheat and maneuver other people into giving up their property or that the cause of the people's idleness and lack of jobs was the stifling of production in the economic system by concentrated wealth. The reforms of Draco were futile. The people, in spite of the vigilance of the police of the Eupatridæ, continued to be sullen and dangerous.

About sixty years after the failure of Draco, there was elected to the chief executive office of the Athenian state a man with business experience by the name of Solon. Solon was also a distinguished philosopher with a philosopher's instinct for justice.[1] He saw many of his fellow countrymen in slavery because of debt. But like many liberals of the nineteenth century in the modern world, Solon believed that liberty was a simple matter of statutory right. If the law would decree that all Athenians were free, then slavery would be ended and the people would be happy. He failed to see that liberty without a job is an empty right or that hungry people could not eat liberty.

So great was the distress of the people that Solon could have made himself dictator by inciting revolution. He was at first enormously popular with the people because of his criticism of the greed of rich men. His own friends urged him "while redressing popular discontent to multiply partisans for himself personally and to seize the supreme power."[2] They even "chid him as a mad man" for declining to "haul up the net when the fish were already emeshed."[3] Solon, however, to his credit was an old-fashioned liberal with a passionate love of liberty. He put his faith in laws which would guarantee to every Athenian the legal right to be free. Though he succeeded in conferring a large measure of liberty in the abstract on the Athenian people, he failed to make it possible for them to translate their liberty into jobs and subsistence. He consequently failed to head off the popular revolution which was to establish dictatorship in the Athenian state.

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[1]In the ancient world, rich men who had made their money in business not infrequently distinguished themselves as philosophers. Thales, who did much thinking about the atom thousands of years ago, was a figure in trade before he established himself as an original thinker in philosophy.

[2]George Grote, *History of Greece,* Volume III, page 98.

[3]*Ibid.*

The important problem was how to free the natural productive powers of the economic system, so that the unemployed people might find jobs, and standards of living might rise. The starting point for effective reform was agriculture. The natural capacity of the soil to produce had been frustrated by the concentration of land into large estates. Debt had ruined the small independent farmer. Some had escaped to the city to swell the ranks of the unemployed. Others had become slaves or had declined to the status of impoverished tenants with no incentive to practice efficient husbandry. These tenant farmers were known as *hektamors*. They were much like share-croppers in America today and were ruthlessly exploited by the great land proprietors who exacted exorbitant rentals taken in the form of produce. The part left to them was barely sufficient to keep them alive. They had no surplus production to exchange for the wares of artisans, and so industry, deprived of this natural market at its door, languished in unemployment. The hektamor had no ambition to improve his methods of cultivation or to increase the yield of his land for three reasons. Capital could be borrowed only at usurious rates of interest and borrowing was generally a short cut to slavery. Secondly, ambitious tenants who did increase their yield generally found that their rents were promptly raised. Finally the concentration of land ownership had taken many acres entirely out of cultivation. This idle land had been turned into parks, terraces, villa sites or hunting preserves for the rich, or had been left vacant.

The natural productive powers of Athenian agriculture could be restored only if idle or poorly cultivated land was put back into the hands of energetic tillers with an incentive to make it yield a maximum harvest. Only a substantial redivision of land could have accomplished this. From such a radical step Solon recoiled. To all proposals for a redistribution of land he turned a deaf ear. He emancipated all slaves whose slavery had been due to debt by cancelling the contracts which had enslaved them. He forbade any creditor in the future to use the body of his debtor as collateral for a loan. He forced the great landlords to reduce their rentals to the hektamor class. But these reforms did not stimulate production in the economic system. The freed slaves needed land, and capital to begin its cultivation. The hektamors would not exert their best efforts to cultivate the soil unless they owned their farms, and they

also had need of capital. Although some writers believe that Solon lowered the rate of interest, there is reason to believe that this fact, if true, was not of much help to propertyless men whom the law had rescued from slavery.

Solon also gave the Athenian people a limited right to participate in government. He divided all the male adults of Attica into four classes according to the size of their yearly incomes in measures of corn. The first class were alone eligible to the high offices in the state. The second and third could hold subordinate offices. The fourth class, the bulk of the population, were given the "important right" of choosing the chief magistrates out of the first class. In addition, they were given the power of sitting in judgment upon the conduct of the chief magistrates upon the expiration of their term of office at the end of the year.

The political reforms of Solon fell far short of creating a democracy. Government was still controlled by rich men. The people had no way of initiating legislation. The law-making process was completely in the hands of the richest men in the state. Unless a magistrate stole public money or committed some other crime, the people were powerless to review his conduct in office. He could not be punished for proposing or enforcing laws favorable to the interests of the rich. Finally, the little power given to the people was completely nullified by the existence of an institution called the *Senate of Areopagus*. This body functioned as a supreme court with the power of judicial veto. It could veto or set aside any law or administrative measure which it considered "doubtful, dangerous or unconstitutional." Its membership was made up of chief magistrates who automatically became life-members when their term of office had expired. Consequently, it was composed of the richest men in the state. The Solonian Constitution must be kept in mind because it is the successive reforms of this constitution which eventually result in Athenian democracy.

Solon, too, failed to stay the dangerous drift towards dictatorship in the Athenian state. His reforms horrified the rich while the poor soon discovered that the liberty they had received was a bad substitute for food or jobs. Worn out by his efforts, Solon sailed away to recover his health after obtaining from the people a solemn promise that his laws would be respected. Four years after his departure Attica seethed with discontent. In that year no chief magis-

trates (*archons*) were elected. This state of affairs was referred to by the Greeks as anarchia, meaning "without an archon." The Athenian state had been ripe for dictatorship for some time but the right kind of a leader had failed to appear. He now made his appearance. His name was Peisistratus and he was the richest man in the nation as well as one of the largest employers of free labor. He came from the northern part of Attica where the people were extremely poor and thoroughly dissatisfied with the reform program of Solon. Peisistratus saw that as the employer of a large number of free miners (*diacrii*) he could rally behind his standard a considerable rabble who would be loyal to him. Ure says that "he seems largely to have built up his influence with them by rendering them aid, doubtlessly financial."[1] Peisistratus suddenly espoused the cause of the poor. He exhorted the people to "sweep aside the barriers which separate rich and poor, noble and commoner, city and countryside" and urged them to install him in office with enough power to look after their interests. At once Peisistratus became the hero of the downtrodden Athenian people. Finally with an army of mercenaries and enthusiastic followers, financed by the proceeds of his great silver mines in Laurium and Thrace, he landed on the plains of Marathon, routed all opposition, and firmly established himself as the political master of the state. The people hailed him as their deliverer and throughout his tyranny he was their idol.

Among the dictators of history Peisistratus is unique. He is the only one who laid the foundation for democratic government. Intentionally or unintentionally, he used his dictatorial power so to shape economic conditions in the Athenian state that within a few years after his death, free government took root and grew like the proverbial beanstalk in the hospitable economic soil that he had spaded. In the modern world where free government is fighting for survival, the general policies of this ancient dictator can be profitably recalled. When in a free government concentrated wealth has broken a capitalistic system down in unemployment, the only sound remedy is to find a way to reverse the concentration. This will remove the obstructions to production which exist because of the concentration of wealth. While this program of reform is being applied, government spending can be justified to prevent people from starving and to furnish immediate jobs. But as the natural productive powers of

[1]Neville Ure, *Origin of Tyranny*, page 35.

the economic system are liberated, private business absorbs the unemployed, the necessity for government spending declines and disappears, the economic system proceeds under its own power furnishing goods and services which raise standards of living, and freedom is saved. If, however, government spending is *unaccompanied* by any effective program to free the productive powers of private business, the economic system will continue to lean on state aid until it is eventually absorbed by government, and dictatorship becomes firmly entrenched.[1]

Peisistratus, starting with a liquidated oligarchical government in which the people had only a token interest, then proceeded to free the productive powers of Athenian capitalism by redistributing wealth and thus uprooting the power of concentrated wealth to repress production. While this major reform was being applied, he furnished immediate employment by the device of government spending on public works projects. But as the economic system recovered its productive powers the necessity for government spending declined and disappeared. For nearly a century after his death there is a noticeable absence of government spending to relieve unemployment in the Athenian state. Athenian capitalism broke down again in unemployment and widespread poverty, due to a new concentration of wealth, but for many years after the ministrations of Peisistratus, it functioned to sustain free government.

As Peisistratus made capitalism productive, he also made the people economically strong. The drastic redistribution of wealth which he effected was the economic factor which caused free government to bob so quickly to the surface after his death. Let us now observe in brief detail the work of this man who in all history seems to have been the only one ever to revive the productive powers of a capitalistic system broken down by concentrated wealth.

The first step of Peisistratus was to disguise the fact that he was the supreme power in the state. He preserved the form of the Solonian Constitution, permitting the people to retain their right to elect magistrates—but the magistrates chosen were his men. His economic reforms revolved around two poles—rehabilitating the small farmer and providing jobs for idle artisans and others un-

[1]Throughout history free governments have perished because government spending has always been unaccompanied by an effective program to free the productive powers of private business. We shall see the truth of this as we proceed.

employed in the city. He favored agriculture, believing that the larger the proportion of farmers in the population, the less the risk of counter-revolution, since revolutions generally started in the city and were touched off by unemployed men. Peisistratus, therefore, vigorously sponsored a "back-to-the-farm" movement which enabled him to install many of the Athenian jobless on small tracts. He obtained the land for this policy by breaking up the great estates into small holdings which he confiscated in the public interest.[1] He is said to have put a tax on land amounting to one-tenth or one-twentieth of its produce, using this fund, augmented by contributions from his own purse, to advance capital to the new proprietors. He favored the smallest farms with the lowest taxes and even exempted from the land tax any small land owner who showed that he could not afford to pay it.[2] Peisistratus is also believed to have decentralized the judicial system. He established local tribunals for farmers in place of Eupatridæ judges. The new tribunals, composed of representatives of small farmers, passed on claims for debt, boundary disputes, and other quarrels over property.

So successfully did Peisistratus redivide the land that, according to the scholar Alfred Zimmern, there was "no land question in Attica till the Spartans came and ruined the cultivation one hundred fifty years later."[3] Zimmern testifies to the amazing revitalization of the economic system by Peisistratus, declaring:

> Peisistratus's most durable achievement was his settlement of the economic difficulties. He solved them once and for all by advancing capital out of his private fortune to the poor land owners, largely, of course, his own political supporters. Once they had margin enough to keep them through lean years, while their trees (chiefly fig and olive) were growing to maturity, their troubles were at an end.[4]

So, for many years after the coming of Peisistratus the Attic peasant

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[1]We shall see when we come to modern capitalism that the method of Peisistratus for redistributing wealth is not the only way or the most desirable way to accomplish this end.

[2]Alfred Zimmern, *The Greek Commonwealth,* page 139.

[3]In the war, the Spartans pursued a scorched-earth policy. They encircled the city of Athens and destroyed all cultivation in the countryside. Olives were an important item in the Athenian diet. Since it takes from sixteen to eighteen years for an olive tree to bear a full crop, and from forty to sixty years before the tree is at its best, the scorched-earth policy of the Spartans dealt an irreparable blow to Athenian agriculture. (See Alfred Zimmern, *The Greek Commonwealth,* pages 50 and 138.)

[4]Alfred Zimmern, *The Greek Commonwealth,* page 138.

"sat quite contented under his vine and fig tree." Great-grandsons of men who had lived under the rule of Peisistratus looked back with reverence on the period of his tyranny as an era when Athens was blessed with peace and when there was economic justice for the common man.

To relieve the distress of unemployed artisans Peisistratus invigorated the ceramic industry. Attic pottery soon acquired great vogue in international commerce and the industry became a fruitful source of employment.

By public works, Peisistratus brought immediate relief to the unemployed. *Kallirrhoe* (the Fair Spring), the best source of the Athenian water supply, was improved by him into *Eneakrounos* (the Nine Fountains). He built a temple to Athena and started a tremendous one to the Olympian Zeus. He enlarged the Agora, a district of Athens, the northern part of which was used as a marketplace and the southern for political and ceremonial purposes. In the southern part of the Agora were located the various public buildings in which were the offices of the administrative magistracies.

Peisistratus also erected numerous other public monuments and buildings and constructed improved roads in Attica. All these were paid for largely out of his private fortune, which appears to have been enormous for its time. But though he used public works to combat unemployment, he followed this policy up with vigorous reforms which revived the natural productive powers of Athenian capitalism. As agriculture and industry were able to exchange more wealth, the necessity for public works as an employment device declined, private business was able to take over the task of furnishing a livelihood to the people, and his improvement of the economic condition of the people became the driving force which ushered in democracy when his dynasty fell from power.

Peisistratus was succeeded by his son, Hippias, who for a time continued the benevolent tyranny of his father. Then suddenly he abandoned himself to luxury and vice. He put citizens to death and inaugurated a reign of terror. He confiscated the property of citizens and then sold it back to them without any alterations to obtain funds for his licentiousness. His despotic policies may have been caused by the loss of his father's great fortune. This fortune was chiefly in rich Thracian silver mines which were captured by the Persians. Plots multiplied against him but help came from an unexpected quarter.

In 548 B.C. the Delphian temple was set on fire and burned. This was the seat of the famed Delphic oracle and a matter of profound importance to the whole Hellenic world. The priests promptly set about getting subscriptions from the pious to rebuild the temple. A large sum of money was collected and the contract to rebuild the temple given to an Athenian named Cleisthenes. This Cleisthenes was the head of the Alkmæonidæ family, a powerful and important family that had been exiled by Peisistratus. He naturally hated the Peisistratus family and because of the successful financial relations he had established with Delphi, he was able to work the oracle "for political purposes, and to call forth the powerful arm of Sparta against Hippias."[1] Whenever a Spartan consulted the oracle, either on private or public business, the answer of the pythoness "was always in one strain, 'Athens must be liberated.'"[2]

Sparta, finally heeding the oracle, sent an army against Hippias and he fled. After the Spartan army returned home, the battle for democracy began in Athens. The Solonian Constitution was still in force, and so what Attica had not known for thirty years under the Peisistratids appeared again—parties and two opposing leaders. The popular interest, however, was not represented. On one side was Isagoras of illustrious family and great wealth, who wished to restore plutocracy in Attica, to undo the economic reforms of Peisistratus, and to curb even the little power given the people in the constitution. On the other was Cleisthenes, also well-born and wealthy, who had a claim on the gratitude of his countrymen "as the most persevering and effective foe of the dethroned despots." Cleisthenes, however, did not appear as the champion of free government in this election. He, too, represented the plutocratic interests. Isagoras won the election. Perhaps the people, though grateful to Cleisthenes for deposing Hippias, remembered that he had been the bitter foe of their great benefactor, Peisistratus, all during the time he was doing so much for them; and, having to choose between two representatives of reaction, chose Isagoras.

After his defeat Cleisthenes began to agitate for *popular government.* This choice of political issues by Cleisthenes testifies to the improved economic conditions of the people. Had they been sunk in unemployment and poverty Cleisthenes would have undoubtedly

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[1]George Grote, *A History of Greece.*
[2]*Ibid.*

promised them jobs and food and made a bid for dictatorship in the standard Greek fashion. A people unemployed want jobs. But when they have jobs they want liberty. Having jobs they have the economic strength to agitate and fight for that liberty. Cleisthenes, a shrewd politician, must have perceived the economic strength of the people and put himself at the head of a movement that he knew would eventually triumph. On the issue of free government, he defeated Isagoras overwhelmingly at a subsequent election and proclaimed a constitution which gave the people a much larger share in government. Isagoras then played his last card. He was a friend of Kleomenes, the leader of the Spartan army which had dethroned Hippias.[1] Kleomenes responded to his appeal for aid and captured the Acropolis. But Cleisthenes rallied the people, who besieged the Acropolis, and after a short time the Spartans surrendered. The short work made of the Spartans, famed for their fighting qualities throughout all Greece, again testifies to the improved economic condition of the people. A people dispirited by poverty would not have fought so enthusiastically or so capably.[2]

REVOLUTION NOT THE MOTHER OF FREE GOVERNMENT

The revolutions of history which have ousted kings or dictators have not usually resulted in the speedy triumph of popular government. Generally it has been the concentrated wealth of a class opposed to the king that has financed the popular revolution which deposes him and which has set up its political rule when this has been accomplished. In ancient Rome, large landed proprietors organ-

[1]This friendship was apparently based on the fact that Kleomenes was in love with the wife of Isagoras.

[2]The exultation in Athens following the surrender of the Spartans is amusingly expressed in one of the plays of Aristophanes.

> "How for all his loud fire-eating,
> The old Spartan got his beating,
> And in sorry plight retreating
> Left his shield and spear with me;
>
> "Then with only his poor shirt on,
> And who knows what years of dirt on,
> All betouzled and besmeared,
> With a bristling bush of beard,
> Slunk away and left us free."

(As quoted by Alfred Zimmern, *The Greek Commonwealth.*)

ized the revolution against the Tarquin dynasty. The overthrow of the Tarquins was followed, not by a rule of the people who had fought the revolution, but of the large landed proprietors. Not until the ownership of land became diffused did popular government emerge.

In England, the revolution against Charles I was organized and financed by the concentrated wealth of the mercantile class. It was this class which succeeded to political power in the state though the people fought the revolution. The rise of popular government was deferred for several centuries until the slow diffusion of economic power among the masses brought it finally to the surface.

The American Revolution was organized and financed by rich land, industrial, and commercial interests whose prosperity had been interfered with by the King of England. After the people had defeated the armies of the King, the control of government passed at once into the hands of these property interests. Male suffrage did not come to America until westward expansion had produced a substantial diffusion of wealth among the common people.

The quick reaction in ancient Athens from dictatorship to popular government, which became firmly established, represents an historical departure from the customary effects of revolution in history. We believe that it can be explained only on the hypothesis that the rule of the Peisistratids effected such a redistribution of wealth and economic opportunity in Attica that the economic power of the people became sufficient to establish democracy almost on the heels of a departing tyrant.

The Cleisthenean Constitution

Hippias was expelled from Athens in 510 B.C. Within two years the people had whipped the Spartans, exiled Isagoras, and the constitution of Cleisthenes had been securely put into operation. This constitution gave the people a large measure of political freedom. Later on it was converted into a constitution thoroughly democratic by a series of reforms. These reforms coincided with a new redistribution of wealth in the Athenian state, a redistribution which put the finishing touches to the work of Peisistratus. Let us see for a moment what the Cleisthenean Constitution accomplished and what it failed to accomplish in its original form.

It conferred upon all free-born adult males of Attic parentage

the sovereign power to make all laws. It divided Attica into ten tribes and one hundred geographical districts called *demes.* A tribe was simply one-tenth of the total voting population of Attica, and did not represent any blood relationship between the voters. The *deme* was a geographical district which included approximately one-tenth of the voters in a tribe. Each tribe had ten *demes* which were not contiguous but were located in various parts of Attica, so that no one tribe would become identified with local or sectional interests.

Each *deme* was presided over by a *demarch* or local mayor, assisted by a local assembly which was concerned chiefly with the collection of taxes and the preservation of law and order. Every free-born male Athenian, upon reaching his eighteenth year, was enrolled upon the register of a *deme.* Upon reaching his twentieth year,[1] *he was automatically admitted to a seat in the Ecclesia,* the national popular assembly which met on the Pnyx Hill in Athens.[2]

Each tribe annually chose fifty men by lot—to prevent special advantage to rich men—for the Senate of Five Hundred. No one under thirty years of age could be an Athenian Senator. No Senator could serve more than *one term,* rotation in office early becoming a cardinal principle of Athenian democracy. The Senate acted as the upper house to the Athenian legislature. At the time of Cleisthenes, no law could be recorded on the statute books unless it was approved first by the Senate and then by the *Ecclesia* on a majority vote in each body. Laws were first approved by the Senate. When they reached the *Ecclesia,* any member could then offer amendments. An amendment, however, had to be sent back to the Senate for approval. Later on the *Ecclesia* became all-powerful. Its members gained the right to propose laws directly in it. Ratification by the *Ecclesia* was sufficient. Senate approval of legislation disappeared. The Athenian legislature became unicameral, and the Senate concerned itself chiefly with administration. Even when the Senate participated in the legislative process, it had numerous administrative duties which extended from inspecting ships, horses and paupers to receiving ambassadors from foreign states.

The *Ecclesia* was originally required to meet ten times a year. Later on, it met forty times a year, and the *Ecclesia* could be sum-

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[1]Compton Mackenzie, *Pericles,* page 112.

[2]Cleisthenes admitted to citizenship a good many foreign business men who had lived in Attica for some time. These foreign business men were called *metics.*

moned for special meetings either by the Senate or the nine *archons,* who were the chief judicial magistrates of the state.

The principle of selection by lot for public office was applied to many offices. Senators, Commissioners for the Upkeep of the Temples, Controllers of the Markets, Controllers of the City, Keepers of State Prisons, Surveyors of Roads—whose responsibilities included public scavenging and the fees of flute players at public ceremonies —were all selected by lot. The method of lot however, was not applied to the most important offices.

In the filling of these offices, Athenian democracy clung to the elective principle, and these offices were filled by the nomination of candidates and a show of hands in the *Ecclesia.*

For instance, it was an important function of the *Ecclesia* to elect annually the *archons,* and later on, the *strategii* (the generals of the army) and some of the lower naval and military officers. These officials were elected by a show of hands in the *Ecclesia*.[1]

On the day appointed for the assembling of the *Ecclesia,* shepherds, charcoal burners, small farmers from distant parts of the state, and artisans from Athens and other cities in Attica met on the Pnyx Hill and decided by a show of hands what laws should govern the people. Thus originated the *Ecclesia,* the House of Representatives of the Athenian people, later to be referred to by Herodotus as that "intractible, splenetic, waspish, and bellowing old man of Pnyx," when *vox populi* had become *vox deorum.*

Cleisthenes retained the provision of the Solonian Constitution that, upon expiration of their terms of office, all magistrates should be accountable to the people for any personal dishonesty or unlawful or cruel acts during their incumbency. When at the end of a year the people assembled upon the Pnyx Hill to judge their magistrates, this judicial assembly was called the *Heliæa.*

The Cleisthenean Constitution effectively obstructed the rule of the people in several ways. It excluded the mass of citizens from holding the important office of *archon.* Following Solon's scheme, citizens were divided into four property classes. All could sit in the lower or upper houses of the legislature, but only members of the first three classes were eligible for the archonship. The nine *archons*

[1]Another official elected by the *Ecclesia* was the Conservator of the Wells. This official was appointed for four years. The Paymaster of the Forces and the Treasurers of the Festival Fund were also elected by a show of hands, for a period of four years.

were the chief judicial magistrates of the state, and in addition had important executive duties. The *Archon Polemarch,* for instance, was the Commander in Chief of the military forces of the state, though he also tried all cases concerning the personal rights of resident aliens and foreigners. The judicial powers of the *archons* touched the economic interests of the people at numerous points. True,' the *archons* were elected by a show of hands in the *Ecclesia.* But even so, the *archons,* chosen only from among those who had a substantial amount of property, tended to be thoroughly property-minded and unsympathetic or even hostile to the man of small means. Since the *archons* had despotic judicial powers, they were in a position to be of great service to rich men. Their decisions were not bound by precedent, nor could they be appealed. An *archon* could be brought before the *Heliæa* when his term of office was up, but unless his accuser could prove bribery up to the hilt, the *archon* who, because of his past or prospective association with men of wealth, favored a rich litigant over a poor one, was unreachable.

The Cleisthenean Constitution also continued the Senate of Areopagus. This body was made up of ex-archons who automatically became life-members when their term of office had run out. This body could veto or set aside any law or administrative measure which it considered "doubtful, dangerous or unconstitutional." Made up of rich men with reactionary opinions on social and economic questions, the Senate soon gained a reputation for viewing all reforms with suspicion and for using its power to protect the interests of the wealthy. Within thirty years, the people and the Senate of Areopagus were fighting for supremacy.

REFORM OF CLEISTHENEAN CONSTITUTION

Effective democratic government in Athens required three reforms: abolition of the judicial veto power of Areopagus or at least a reform of its membership; establishment of the people's eligibility for *any office* in the state; and restriction of the *archons'* despotic judicial powers. Beginning in 478 B.C. and reaching a climax in 461 B.C., the constitution of Cleisthenes was reformed. This reform comes directly on the heels of a *further equalization of wealth in the Athenian state.* This new levelling of wealth is caused by the

Persian wars which extended from shortly after the beginning of the fifth century to approximately 447 B.C.

In the first phase of these wars, the Athenians experienced a disastrous defeat. At first, the Athenians under Miltiades repulsed the Persian king, Darius, at Marathon. Then a huge Persian host sent by King Xerxes succeeded in getting by Leonidas at the Pass of Thermopylæ, the gateway to Attica. The Persians ravished the countryside, then advanced on Athens. The whole city was forced to flee, the people taking with them what property they could. The Persians entered the city, pulled down its walls, and made off with everything of value. The houses of the rich were singled out for particular destruction.

At this point Themistocles organized the Athenian navy at Salamis, where many refugees had gone. There all Athenians, formerly rich or poor, were compelled to enlist as common sailors and to rub elbows with one another. After the victory of the Athenian fleet at Salamis, the Athenians returned to their wrecked city. The first job was to rebuild the walls. In this effort all Athenians were forced to contribute manual labor. For months the ruined rich worked side by side with small tradesmen, artisans and farmers towards whom in the past they had rigorously maintained social distinctions based on wealth. The sacking of Athens by the Persians caused a profound equalization of wealth in the city for a number of years after Salamis. As Grote comments:

> Seldom has it happened in the history of mankind that rich and poor have been so completely equalized as among the population of Athens in that memorable expatriation and heroic struggle.[1]

Following Salamis, the Athenians, Spartans, and other allies, in the battle of Platæa, permanently drove the Persians out of Greece proper. Swiftly on the heels of the new levelling of wealth in Athens, the reform of the Cleisthenean Constitution began. At once, the constitution was made "common to all" and all magistrates were "chosen from all Athenians without any difference of legal eligibility." The next two steps were more difficult, but went through on the democratic tide.

The people, led by Ephialtes, a poor man and the son of a poor man, launched a terrific attack on the Senate of Areopagus and the

[1]George Grote, *A History of Greece.*

despotic judicial powers of the *archons*. Conservative Athenians rallied around their Supreme Court, just as many did around our own Supreme Court in the year 1937 A.D.; and the whole of Attica was in an uproar. Ephialtes, however, carried a motion in the Senate of Five Hundred and the *Ecclesia* to abolish the ancient prerogative of Areopagus to declare acts of the legislature invalid.

Ephialtes was also responsible for another law which completely stripped the *archons* of their arbitrary judicial powers. He had protested for years against these powers, and had preferred numerous complaints before the *Heliæa* against particular *archons* upon the expiration of their term of office. Finally, convinced that this remedy was futile, Ephialtes was instrumental in having the *archons* reduced to the innocuous position of presiding over juries which themselves passed upon all questions of law and fact.

A general body of public jurors comprising six thousand citizens above the age of thirty was elected each year by lot. Five thousand of these were divided by lot into ten juries of five hundred members. Jurymen were known as *dicasts,* and a jury was called a *dicastery.* The one thousand remaining jurors were kept in reserve to make up any deficiencies on the ten active juries caused by sickness or death. Cases coming up for trial were assigned to the ten juries by lot, to make it difficult for rich litigants to corrupt justice. Each jury sat continuously, during its year of office, until its docket was cleared. The creation of public *dicasts* by Ephialtes established the judicial sovereignty of the people to parallel their political sovereignty.[1]

The personal triumph of Ephialtes, however, was brief. The conservative party hired a Bœotian of Tanagra, named Aristodikus, to assassinate him. His assassination, however, more firmly than ever entrenched in power the people's party, because the conservative faction became discredited by its murder of Ephialtes.

After the death of Ephialtes, Pericles became the leader of the reform party. During his political career, the same economic forces which had given Peisistratus his opportunity for dictatorship reappeared. A new and extreme concentration of wealth occurred and the economic system began to break down in unemployment and acute economic distress. Finally it spawned a severe depression. Through government spending Pericles became dictator by vote of the people.

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[1] Shortly after the introduction of the public jury system, *archons* ceased to be elected and the office was filled by lot.

The economic forces which produced the dictatorship of Pericles arose out of the second phase of the Persian wars. In this phase the Greeks by a united effort defeated the Persians, pushed them out of Greece, and pursued them into their homeland. One year after the battle of Platæa a league of Greek maritime states was founded under the leadership of Athens to provide for a common defense against the Persians. In the beginning, this Delian League was a union of equal partners, each state contributing its quota of military supplies and manpower to maintain a common defense force. Athens acted as the executive of the confederacy, determining the quotas of the constituent members and seeing that the obligations assumed were fulfilled. In a short time, however, the other members of the League began to commute their quotas of military supplies and manpower into annual money payments. Then Athens had at her command a rich treasury with which she built and maintained a powerful fleet. Under the spur of this militarv might, Athens proceeded to reduce the other members of the League to a state of vassalage. What had started out with lofty sentiments about the protection of free government against Persian autocrats, degenerated into an Athenian empire.

The Ægean Sea became an Athenian lake, and Athens, which boasted of its free government, became the tyrannical master of other democracies. The growth of this Athenian empire offered many opportunities for Athenians to accumulate great fortunes. It was a period like that which followed the Punic wars in Rome and the Civil War in the United States. Plutarch specifically refers to the "swollen wealth" amassed in this period. Part of it was war booty. The Athenian army and navy had a series of uninterrupted successes against the Persians, which resulted in the capture of much gold and silver from the defeated foe. In the spectacular defeat of the Persians by Cimon at the River Eurymedon, the "number of prisoners, as well as the booty taken by the Athenians, was immense."[1] A good many citizens were made "financially independent"[2] through such booty.

Another fertile source of great fortunes in this period was the lucrative *trade and commerce* with the vassal states. It was in this period that Hipponicus, the banker, "swept together the greatest fortune in

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[1]George Grote, *A History of Greece.*
[2]Neville Ure, *Origin of Tyranny,* page 19.

the history of Athens." He was closely followed by Nikias, who owned a thousand slaves, some of whom were highly skilled workmen. These slaves Nikias rented out to mine owners and other industrial magnates at a handsome price. The banking house of Phormion rolled in wealth, chiefly gained from "granting long-term credits to the state" at rates of interest higher than "those offered by competitors."[1] It was, of course, the political connections of the banking house which enabled it to plunder the state with impunity. Land speculation, too, spawned its crop of millionaires. Piræus, the seaport of Athens, was rebuilt by Hippodamus so that its streets ran straight as a string to the Plaza. Land speculators with inside political information about this project of Hippodamus "made millions at the expense of the government."[2] A whole galaxy of Astors, Vanderbilts, and Pierpont Morgans quickly established themselves as the rulers of Athenian trade and commerce.

The rise of the Athenian empire and the swift concentration of wealth that it engendered reacted promptly on the economic welfare of the common man in Attica. The Athenian people were to find, as did the people of Rome some centuries later, that *empire is plutocracy's choicest opportunity but an economic cross for the man in the street.* The people paid for the creation of empire with their lives and blood, but they shared very little in the economic opportunities created by their conquests. The course of the Athenian, and of the Roman, empire *was to make the rich richer and the poor poorer.* Conquests which added land, mineral resources, capital, and manpower to increase the potential productive powers of the conquering nation, resulted eventually in less production because of the extreme concentration of wealth.

Within fifteen years after the founding of the Delian League in 478 B.C., there were unmistakable symptoms that the ordinary Athenians' economic condition was growing desperate. The victories of the Delian League over the Persians resulted in a steady infiltration of slaves into the economic system. The growth of large estates in the agricultural regions was characterized by absentee ownership, administration by a bailiff and slave labor. Pitted against this cheap labor, which drove agricultural prices downward, the small Athenian farmer began again to go to the wall. In Athenian industry, too, the

[1]René Kraus, *Private and Public Life of Socrates.*
[2]*Ibid.*

increasing use of slaves by large concerns brought hard times to the free artisan with his small household factory or corner shop.

The growth of unemployment in Attica among the citizen population was noted by Plutarch, together with the first remedy that was applied. From 470 B.C. to 460 B.C. the word *kleruch* became prominent in the vocabulary of politicians. A *kleruch* was a group of unemployed Athenian citizens sent out at the expense of the state to found colonies in the new Athenian empire. The exportation of the idle became a favorite political method for periodically reducing unemployment within the city of Athens.

Nevertheless, unemployment continued to plague the fortunes of political leaders. The next remedy was to put *dicasts* on the public pay-roll at two obols a day for each day of active service.[1] This was the entering wedge of a formidable attack on the state treasury. The end result was to revolutionize the relationship of the citizen to the state and ultimately to destroy Athenian democracy. The Athenian had lived for the state for many years after the inauguration of the Cleisthenean Constitution. No pay had been attached to any public office. Every citizen had been expected to contribute his share of the labors of government free of charge. Not long after the granting of public pay to *dicasts,* Athenian citizens were to live *on the state.* Athenian citizenship, which had once been merely an honor, rapidly, under Pericles, became an occupation.

STANDARD TECHNIQUE

Sometime between the year 460 B.C. and 450 B.C., Athenian capitalism went into a severe depression. To provide for the jobless, Pericles, in 450 B.C., launched a tremendous public works program[2] beginning with the building of the Temple of Athena Nike. This

[1]In Athens two obols a day were considered a living wage, until just after the death of Pericles, when the cost of living went up rapidly. An obol was equal to three pennies in modern money, though, of course, its purchasing power was much greater. At the time of Pericles, 40 pre-war British pounds (approximately $200) a year, would have kept "a married couple in comfort." (Compton Mackenzie, *Pericles,* pp. 156, 157.)

[2]The spending program of Pericles was financed by appropriating the fund of the Delian League. This fund was solemnly earmarked for use only on military projects better to protect the members of the Delian League from attack by the Persians. The annual contributions of the members of the League amounted to a large sum of money. Pericles boldly took the fund to finance his spending program to combat the depression in Athens—an act which morally or legally cannot be condoned.

was followed by the commencement of the Parthenon in 447 B.C., a project that required nine years to bring to substantial completion, and five more years for the finishing touches. The Parthenon was followed by the Propylæa, in which stands the great bronze lioness without a tongue, which the Athenians erected in memory of the courtesan Leæna, the mistress of Aristogeiton. Collateral to those great works of art were numerous other public works projects, some of which represented a sheer waste of public money. Thus, dikes were built where "the surf had never been dangerous"; a new Eleusinian Festival road was built, although "the old one would have lasted a couple of centuries more for the annual procession."[1]

The public works program of Pericles coincided completely with his dictatorial ascendancy in the state. His program launched in 450 B.C. had gained enough momentum by 445 B.C. to insure him the office of *Chief Strategos* for fifteen consecutive years.[2] Up to the beginning of the Peloponnesian War, one year before the death of Pericles, his building program was still being carried through to completion.[3]

Pericles gilded the economic life of Athens, but private business was not restored to health by his vast public works program. Unlike Peisistratus, Pericles attempted no program to free the productive powers of private business, which alone could have saved political freedom or improved the economic condition of the people. From the beginning to the end, Pericles maintained his dictatorship by

[1]René Kraus, *Private and Public Life of Socrates.*

[2]The office of *Chief Strategos* was the equivalent of that of the President in the United States. Originally, the *Archon Polemarch* had been the Commander in Chief of the state's armed forces. During the Persian wars, however, it became the custom to elect ten generals annually, called *strategii,* one from each tribe. During these wars the *strategii* were at times re-elected to office but that was because they were engaged in fighting an arduous war. The *strategii* in time displaced the *Archon Polemarch* and with the return of peace, the fundamental tradition of rotation in office was immediately applied to the *strategii,* especially because, in addition to their military duties, they had been given large political powers. The *Chief Strategos* and his nine associates functioned as a Department of State, and the *Chief Strategos* became the most important executive office in the government. When Pericles captured this office fifteen times in a row, he violated the most sacred tradition in the Constitution—the rotation tradition that had been rigidly observed for many years and which was considered a bulwark against dictatorship. Democracy under Pericles degenerated into the liberty of the sovereign people "to decide as Pericles thought best."

[3]Plutarch, *Pericles* 12. The public works of Pericles gave employment to "carpenters, sculptors, cobblesmiths, stone masons, dyers, moulders of gold, painters, embroiderers, engravers, merchants, sailors, wheelwrights, wagoners, drivers, rope makers, flax workers, leather cutters, road makers, and miners."

government spending. The political power which had concentrated in Pericles, however, brought the Athenian people to irreparable ruin. Pericles took the people into a disastrous war against Sparta known as the Peloponnesian War. This war ruined the soil of Attica and the small Athenian farmer. It stripped her of her empire and left her so depleted in economic resources that under the operation of concentrated wealth—promoted by wars that bore heaviest on the poor and by trade which favored the great industrialist and merchant—the people experienced terrible poverty. Though the forms of democracy revived in Athens after the Peloponnesian War, the city was consistently ruled by rich men who bid against one another to feed the people by employing them on state projects. Demosthenes speaks of the Athens of his day—nearly a century after the death of Pericles—as "overrun with salaried paupers." In this degradation of the people, the old days of the Eupatradid oligarchy came back in part. Slavery due to debt reappeared in Athens. When Philip of Macedon appeared before the city, he found a hollow democracy in which the people were ground down by poverty and resigned to a spiritless dependence on the state for their daily crusts of bread. The impoverished Athenians had long since ceased to take any pride in the glory of Athens or any courageous interest in defending free government.[1]

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[1]After Philip, the Athenian State fell into the hands of other conquerors, notably Rome. But for many years after the death of Pericles concentrated wealth persisted and continued to bear its fruit—a people thoroughly impoverished and living mainly by public handouts. This long period of concentrated wealth is correlated with a drastic deterioration in the character of the Athenian people.

In days when wealth had been more diffused, the people had responded vigorously to moral issues. Magistrates had feared to use their offices to enrich themselves. Many Athenians had been restrained from dishonesty because of faith in and fear of the gods. Then came a profound change as the people became doomed to crushing poverty by a prolonged period of concentrated wealth. The people became irreligious and indifferent to corruption in government. Magistrates came to regard public money as their own. Polybius, the great philosophic historian, wrote of the moral decadence which overtook the Athenian people. He wrote at a time when the people had been living under conditions of wealth highly concentrated for more than two centuries.

He said the Romans in his day still respected their solemn oaths of office (this was written in the pre-Gracchan period when, though wealth was concentrating in the Roman economy, it was still sufficiently diffused to keep alive the high standards of public honesty and service set by the Peasant State). But the Greeks had emancipated themselves from "old-fashioned religious superstitions and had, therefore, no regard for oaths. The result was, he said, that men handling public money even if entrusted only with a single talent and given ten checking clerks, ten seals and twenty witnesses, could

Why did Pericles take the people to war against Sparta? Pericles declared that the war was necessary to save free government in Greece. He portrayed himself as the leader of the free states of Greece against the tyrant Sparta and the Greek nations which were in alliance with her. He accused Sparta of having designs to conquer all Greece and told the people that delay in attacking Sparta would be fatal.

The Periclean version of this war has been adopted by some modern writers *in toto*. Thus René Kraus, in his *Private and Public Life of Socrates,* sees in the Peloponnesian War of 430 B.C. an exact counterpart of the great war of today. Athens headed the United Democracies while Sparta led the United Fascists, and the Peloponnesian War is depicted as the efforts of Pericles to save free government in ancient Hellas from the conquest ambitions of Sparta. Sparta is pictured as the counterpart of Nazi Germany, a nation in which the freedom of the individual is ruthlessly regimented and subordinated to the ends of a military state. Everyone in Sparta, as in Germany, lived for the glory of the fatherland.

The comparison of Sparta with Germany has merit, but the rest of the comparison omits facts that seriously compromise the professed idealism of Pericles. In the first place, Athens was no longer a democracy. Pericles had made himself into a dictator. In the second place, the so-called democracies united with Athens were, in fact, merely subjugated parts of an Athenian Empire—a subjugation that had been accomplished by treachery in the perpetration of which Pericles had lent a hand. Finally, there is no doubt that Pericles provoked Sparta into the war. He breached a thirty-year peace with her by a belligerent act. Though the Spartan King Archidamus was strongly opposed to war and did everything he could to avert it, Pericles sent ambassadors to him to taunt the Spartans with their shortcomings in the Persian wars and to stir their pride by such arrogant conduct. When he cut inland Greek states off from an outlet to the sea by closing the port of Piræus which they had used for many years, he greatly alarmed neutral states and added fresh substance to a long-standing suspicion that Athens, in spite of her professed love of political liberty, was at heart a dangerous tyrant.

not keep their faith." "It is hard," he remarked, "to find a man who keeps his hands off public money and maintains a clean record." (Charles Bullock, *Economic Essays,* page 524.)

The historian Plutarch came to the conclusion that the war against Sparta could have been avoided but for the peculiar obstinacy of Pericles, who insisted that he must save free government from the conquering lust of the Spartans and her allies. The writers of comedy in Athens at this period unanimously charge him with starting the war to bolster up his fading popularity with the people. The comic writers were an unusually brilliant group of men, including such observing geniuses as Aristophanes, and their opinion is entitled to weight. Their opinion is further fortified when we consider the fact that the popularity of Pericles with the people was fading and that his political life was in jeopardy at the time he forced the war with Sparta.

The government spending program of Pericles left the door open for one type of effective opposition. An opponent who would promise the people better pay and shorter hours would be certain to excite support from the people, particularly if Pericles refused to match his offer. Such an opponent did emerge. He was Cleon, the cobbler, an uncouth demagogue who pursued Pericles and his friends in the *Ecclesia* with charges of mishandling public funds, and who attacked the rich and offered communistic proposals to make the state into a real Santa Claus. Pericles resisted such dangerous demagoguery, and the evidence indicates that he did in consequence put his political life in peril. That the power of Pericles was waning is evidenced by the fact that in the second year of the war Cleon successfully accused him of misappropriating public funds and had him sentenced to a fine. The power of Pericles was broken and Cleon took over. For a time he gave the people the illusion that he was leading them into the promised land. Under his leadership, Athens extorted every penny she could from the vassal states remaining to her. This fund, augmented by wholesale confiscations of the property of wealthy people, was distributed as a dole to the people. For a short time the people realized higher doles and more leisure, but they were to discover that higher wages could not buy wealth that was not produced. At the same time that Cleon increased the dole to the people, he and his cronies boldly pillaged the state treasury. Public debate on the annual budget suddenly ceased in the *Ecclesia.* The Cleon gang had stolen such large sums that a public debate on the budget would have exposed their thefts. So Cleon had the budget voted in a lump sum.

The demagoguery of Cleon culminated in reaction, but neither the oligarchy of four hundred, the thirty tyrants, nor the feeble democracy which revived after the Peloponnesian War could dispense with public relief. Up to the day Athens was conquered by Philip a high percentage of citizens continued to roost on the public pay-roll because they had no other place to go.

SPARTA

Some eight or nine centuries before the beginning of the Christian era, Sparta was a weak and inconsequential state in ancient Greece. A few centuries later, she had become the most powerful and feared nation in the Pan-Hellenic world. By the beginning of the third century B.C., however, Sparta was the most enfeebled and decadent of all Greek states. The economic condition of the Spartan people had become the worst in all Greece. Other states had lost power and affluence but, observes Grote, "among all the Grecian states, Sparta had declined the most."[1]

What was it that caused Sparta to outstrip her neighbors in the degree of her decline? On this point the testimony of historians is in complete agreement. In Sparta, wealth concentrated to the greatest degree in the Greek world and the poverty of the people became greatest. The ruin of Sparta is particularly interesting because the Spartan people alone of all the Greeks tried to operate a social and economic system expressly designed to kill off the acquisitive spirit. Spartanism, with its objective of controlling capitalistic acquisitiveness, was in the ancient world as revolutionary in its ideology as Communism is in the modern world. For a time the Spartans were fully as fanatical about their system for achieving economic equality as the proletarians of Russia today.

In the end, however, the acquisitive spirit broke loose from its fetters and destroyed Sparta. This lesson will be kept in mind when the unacquisitive ideologies of the modern world are examined.

Around 800 B.C. Plutarch, the historian, records that the Spartan people were sunk in appalling poverty. This condition, he says, was "due in great measure to the gross inequality of property and unprincipled rapacity of the rich who had drawn to themselves the

[1]George Grote, *A History of Greece.*

greater proportion of the lands of the country, leaving a large body of poor, without any lot of land, in hopeless misery and degradation."

A reformer by the name of Lycurgus then appeared to set matters right. His plan for regenerating Sparta remained, up to a few years ago, one of the curiosities of history. With the rise of the Nazi party in modern Germany, however, Lycurgus seems strangely unancient. In the Lycurgean philosophy, there is discernible much that is fundamental to the creed of the Nazis. Lycurgus, too, preached racial purity. Like the Nazis, he believed that the end of individual happiness was to worship and serve the state and that the state was great in proportion to its capacity for conquest. Like Hitler, he condoned loose marital ties, provided the state was furnished with a supply of healthy children. In the Sparta of Lycurgus, there was a regimentation of individual life similar to that in Germany under the Nazis.[1]

Lycurgus redistributed all land in Sparta,[2] dividing it into equal tracts, each sufficient to sustain a Spartan and his family. Every Spartan received one of these plots, the cultivation of which was left to *Helots,* descendants of the aboriginal settlers whom the Spartans had conquered. The *Helots* constituted a class of sharecroppers with the difference that they were bound to the soil. They worked the

[1] There was, however, an important difference between regimentation in the Spartan State and in the Nazi State. In the Spartan State, *government did not control and, therefore, could not coerce the economic life of the individual.* Every Spartan citizen lived off of land which he owned and controlled and which supported his family and supplied him with food and military equipment during his years of military service. When these came to an end, his farm continued to furnish him with a livelihood. Consequently, because the Spartan citizen could support himself without government's having the power to control his livelihood, he could exercise political freedom. In the Nazi State, because government controlled the economic life of the individual, the individual could not enjoy political liberty. Thus in Sparta there was a substantial measure of free government while in Nazi Germany there was complete despotism.

[2] The modern scholar, Grote, takes sharp issue with Plutarch's account of Lycurgus. He insists that Lycurgus did not redivide land in Sparta. With this controversy we need not concern ourselves. We can accept the Grote version that Lycurgus did not redivide the land. What must have happened in that case is that Lycurgus constituted a military brotherhood of all Spartans who did own enough land to be able to supply their food at the public mess. Starting from this hypothesis there is no disagreement between Plutarch, Aristotle or Grote that the break-up of the Lycurgean system was due to a further concentration of wealth which steadily reduced the number of Spartan citizens and caused the great mass to deteriorate from extreme poverty. However, there is reason to believe that the Plutarch version of Lycurgus may be correct, Grote to the contrary notwithstanding.

estates of their Spartan masters and were rewarded with a share of the produce.

Then Lycurgus forbade any Spartan to engage in trade or commerce. Realizing that perhaps some commerce would be inevitable, he planned to keep it down to a minimum by prescribing for money, pieces of iron that were heavy and hard to carry.[1] He established a military brotherhood in which all Spartans served the state in a military capacity until age made them unfit for further service. Every newborn child was officially inspected by the state and, if physically defective, was left out of doors to die. At the age of seven, the young Spartan was taken away from his parents and subjected to a system of rigorous bodily discipline. In winter and summer the Spartan youth walked barefooted and performed all his gymnastic exercises naked. He was taught to bear pain unflinchingly and to harden his body to fatigue. Above all he must beware of sexual indulgence. The end of marriage was to beget healthy children for the state. Confirmed bachelors were treated with contempt, and the sterile woman was ridiculed.

The economic foundation of this military brotherhood of Lycurgus was the individual allotment of ground to each Spartan family. Every Spartan soldier was required to furnish from his farm each month so many bushels of barley, pitchers of wine and pounds of cheese and figs. A Spartan failing to do this immediately lost his citizenship and was relegated to an inferior status in the community.

The Lycurgean system was enforced by a government which embodied to a substantial degree the principle of political freedom. The government consisted of two kings, a Senate of twenty-eight ancient men and a popular assembly. The authority of the kings was strictly defined and limited and they were in no sense autocratic rulers. The Senate possessed the power to propose laws but the popular assembly had the power to reject them. Another branch of the government ultimately developed. Five *Ephors* were created to act as an executive body, but any Spartan was eligible to be an *Ephor*. Gradually the *Ephors* became all-powerful in the government, but for many years Sparta was the most anti-tyrannical state in ancient Greece and the power of the people was a definitely recognized force in the functioning of the government.

It was a grim system which Lycurgus instituted and for a time it

[1]Compton Mackenzie, *Pericles*, page 108.

made Sparta the number one fighting nation of the Hellenic world. Strange to say, the military might of Sparta was not used to subjugate weaker states. Since the Lycurgean system forbade the worship of wealth, there was no incentive for Sparta to pursue a policy of economic imperialism. Oddly enough, Sparta used her military strength to defend the freedom of weaker nations. Hating tyranny herself, Sparta was willing to give help to nations in danger of being conquered and pillaged. For many years, records Grote, Greek states used "to ask the help of Sparta against wrong-doers."[1]

The power of Sparta declined because Lycurgus did not perceive that his disciplinary system depended on protecting each Spartan in the ownership of his land. The economic foundation of his system was corroded away as commerce developed and wealth concentrated to an extreme degree in the Spartan state. The starting point of its decline is the end of the Peloponnesian War. King Archidamus of Sparta had tried hard to keep Pericles from precipitating this war, which divided all Greece into partisans of Sparta or Athens and forced upon Sparta the issue of her own salvation.

For some thirty years Sparta and Athens fought it out, but in the end Athens was conquered. Before this war Sparta had preferred to stay at home, disliking wars which took her soldiers too far from their native land, and foreigners had been vigorously prohibited from settling in Sparta. On the verge of the Peloponnesian War, Sparta had no tributary subjects, nor any funds in her Treasury, while her citizens were reluctant to pay imposts.[2] The Lycurgean system had been on the whole successfully enforced. It was a capital offense for any Spartan to be found with either gold or silver in his possession. No money was tolerated except heavy pieces of iron, "not portable save to a very trifling amount."[3] All told, the enforcement of the Lycurgean system had prevented a concentration of wealth in the Spartan state that would have caused many Spartan families to lose their lands and would have forced them into dire hunger and destitution. Under this system, while the average Spartan household did not eat luxuriously it managed nevertheless to eat regularly, to live fairly healthily and to avoid the fate of propertyless and jobless proletarians.

But at the end of the Peloponnesian War, Sparta suddenly found

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[1]George Grote, *A History of Greece,* Volume IX, page 235.
[2]*Ibid.,* page 232. [3]*Ibid.,* page 230.

herself the conqueror of an empire—the Athenian empire. The Spartan generals found themselves in possession of vast sums in gold and silver and the means for levying systematic tribute for more on the nations conquered. The Spartan military leader, Lysander, brought home to Sparta an enormous treasure in gold and silver. It was a moment of profound crisis for the Lycurgean system and the future of Sparta. Some of the *Ephors*[1] strenuously opposed the admission of the treasure of Lysander, but they lost the political battle to save Sparta from acquisitiveness. Gold and silver were admitted within the state and immediately the Lycurgean system disintegrated. A small group of politically powerful Spartans were soon in a position to enrich themselves "either at the expense of foreign subjects or of the Public Treasury" and their activities tended "to aggravate more and more the inequality of wealth among the Spartans which Aristotle so emphatically notices in his history."[2]

The smaller citizens, says Grote, had no opportunity

> to guard their properties against gradual subdivision and absorption, and to keep them in a permanent state of ability to furnish that contribution to the mess table, for themselves and their sons, which formed the ground work of the Spartan political franchise.[3]

As wealth concentrated to an extreme degree in the Spartan state the nation became composed of a few very rich men and a ragged, hungry mass of enfeebled and disenfranchised citizens. The condition of Sparta in the middle of the third century B.C. is graphically described by Grote:

> Taking the condition of the city in the time of Agis the Third (about 250 B.C.) we know that its citizens had become few in number, the bulk of them miserably poor, and all the land in a small number of hands. The old discipline had degenerated into mere forms. A numerous body of strangers or non-residents (the old *xenelasy* or prohibition of resident strangers, being long discontinued) were domiciled in the town, forming a powerful moneyed interest; and lastly, the dignity and ascendancy of the state amongst its neighbors were altogether ruined.[4]

The last gasp of this once powerful state is worth noting. Agis the Third deplored the degradation of his country. He also perceived

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[1] *Ibid.*, page 230.
[2] *Ibid.*, page 233.
[3] *Ibid.*
[4] *Ibid.*, Volume II, page 399.

the cause—the extreme concentration of wealth. So, like a modern Huey Long, this ancient king preached a redivision of the land, the cancellation of all debt and the restoration to citizenship of all those who had lost their places at the public mess because they could not furnish their monthly quotas of food. To prove his sincerity, Agis "cast as the first sacrifice into the common stock" his own property and that of his relatives—among the largest in the state.[1] Agis could not be brushed aside by accusing him of radicalism. He was the last of a long line of great Spartan kings and he scared the plutocracy badly. In the end, they had to contrive his assassination. After his death a few kings survived, but in the end the concentration of wealth became so extreme as to destroy the Spartan state itself. Sparta broke up into rival gangs of brigands, each dictator seeking to subdue his rivals, and moss covered the remains of the once mighty city.

[1]George Grote, *A History of Greece,* Volume II, page 399.

CHAPTER V

TWO THOUSAND YEARS AGO: *ROME*

ROME, the village, began like thousands of American towns, as a convenient center for barter and horse trading. The first community, situated on the Palatine Hill and comprising about forty acres, was settled about 800 B.C. These early Romans lived in a state of agrarian capitalism and primitive free government. Land ownership was diffused, each holding furnishing the owner and his family with food, clothing and shelter. Some trading of simple pottery, bronze implements, and a few iron utensils appears to have taken place in primitive markets. Government took the form of town meeting democracy, with an annual election of magistrates by the people. About 650 B.C., the villages of the several hills of Rome were united into one city with a common government. The annual election of magistrates was abandoned. An elected king, holding office for life, was substituted because it was believed that this kind of a magistrate would give greater stability to a government constantly at war with hostile neighbors.

This Roman king, however, was not an absolute monarch. A Senate, composed of representatives of the oldest families, and a popular assembly of the people were part of the machinery of government. When the king died, the Senate appointed an *interrex,* whose function was to nominate a new king. The choice of the *interrex* was then formally submitted to the assembly of the people, who met at the northeast end of the Forum. A majority of votes was necessary for election, after which the nominee had also to be confirmed by the Senate. The king, once elected, exercised broad powers, but apparently exercised them with regard for the welfare of the people. Ancient writers make no mention of any despotic ruler among the first four kings of the united villages of Rome. The fourth of these kings was Ancus Martius, and it was in his reign that the Roman people began their experience with the standard

sequence of events which plunged so many Greek communities into dictatorship.

Some fifty miles northeast of Rome, a merchant by the name of Demaratus, the son of a Corinthian, had settled in the Etruscan city of Tarquinii, the modern Corneto. This Demaratus had amassed a tremendous fortune transporting Greek cargoes to the Etruscans and Etruscan wares to Greece. He became not only a rich merchant but also a great employer of labor.[1] Demaratus left all his wealth to his son Lucius, who resolved to "engage in politics" and to make for himself "a great name in public affairs." He is said to have migrated to Rome specifically because "there seemed more prospect there of his wealth leading to high political power."

Lucius must have perceived that in the simple agrarian state of Rome his wealth would shine to greatest advantage. There, according to Livy, "his wealth immediately brought him into prominence."[2] "He very soon became friends with King Ancus Martius," relates Dionysius, "making him presents and supplying him the funds for his military requirements."[3] Lucius also did not overlook making himself popular with the plebeians in whom was vested the important political power of electing a new king on the death of Ancus Martius. Diodorus says that Lucius "helped many of the poor by giving them money."[4] It is clear that Lucius used his vast wealth to induce both patricians and plebeians to sponsor his candidacy to succeed King Martius, who was old. He also brought with him to Rome many skilled workmen. These he had duly naturalized as Roman citizens so that they might be entitled to vote with the plebs for the selection of a new king. The scheme of Lucius prospered, for, on the death of King Martius, he was elected King of the Romans.

Under Lucius, there began an immediate transformation of the economic system. He encouraged trade and industry and soon the people ceased to engage predominantly in agriculture. The rapid expansion of commercial life was, however, followed by a concentration of wealth and as this process advanced, the economic system

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[1]Strabo speaks of the "large number of skilled workmen" who accompanied him from Corinth. (Strabo V. 220.)

[2]Livy I. 34.

[3]Dionysius of Halicarnassus, *Archæologia,* III. 48. Hereafter referred to as Dion. Hal.

[4]Diodorus, VIII. fr. 31.

began to break down in unemployment and government spending. The old condition of relative economic equality disappeared. Great estates arose and even serfdom began to make its appearance. The Roman people sank swiftly into "poverty and unemployment." When this happened the Tarquins were forced to undertake public relief.

Servius, who succeeded Lucius, combated the growing economic distress by distributions of "corn and land"[1] and by a formidable public works project, the enclosure of the city with a rampart of colossal size and extent.

It was under Tarquinius Superbus,[2] however, that public works became indispensable for preventing widespread starvation among the people.[3] On this point, Dionysius is explicit and detailed:

> He enrolled all the plebeians who were loyal to him and suitable for military requirements and the rest he found employment for on public works in the city, thinking it a very great danger for monarchs when the worst and poorest of the citizens were unemployed. On these works all the poor were employed, receiving from him a moderate provision. . . .[4]

Through public works, Superbus made the people dependent on his purse for their livelihood and because of his control of the people he made his powers despotic. His fall appears to have been due to several factors. Though Superbus gave the people jobs, he was "a harsh and unpopular employer."[5] His régime was one of sweat and pittance wages[6] and the people grew ripe for revolt. The leadership for revolt and the means for financing it came from the landed nobility, who were tired of the domination of the commercial nobility which had become all-powerful under the Tarquins. They encour-

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[1]Dion. Hal. IV. 13.

[2]Servius was overthrown by Tarquinius Superbus, who is said to have secured the throne by "buying up the poorest of the common people." Dion. Hal. IV. 30. See also Livy I, 46.

[3]Other public works of the Tarquins included the draining of low grounds, the building of an elaborate forum and circus, the construction of a great cloaca (sewage system) and the erection of many temples, including one on the Capitoline Mount, the massive foundations of which were an object of wonder even to Pliny.

[4]Dion. Hal. IV. 44.

[5]Neville Ure, *Origin of Tyranny,* page 226.

[6]The industrial and commercial civilization sponsored by the Tarquins was accompanied by the rise of a money economy. Ure believed that the evidence is credible that King Servius inaugurated a bronze coinage system. (Ure, pages 221 *and* 222. See also Pliny, N.H. XVIII. 3, XXXIII. 13, and Cassiodorus, *Variae,* VII. 32—both of whom state emphatically that Servius inaugurated a bronze coinage system.)

aged the people to revolt. The revolt took place at an opportune time. The personal fortune of Superbus was consumed "by the magnificence of his public works,"[1] and his power to control the "armed citizens by presents"[2] declined. In 509 B.C. the people organized and, led by the great land owners, deposed Superbus, who fled for his life.

The rule of the Tarquins left deep impressions on the Roman political mind. In the old agricultural order under King Ancus Martius, the Roman people had been small land owners, able to make a living as free men. Contrasting this condition with the industrial slavery of the Tarquins, the Roman people turned their backs on trade and commerce. Within a short time after the expulsion of Superbus from the city, Rome receded from a powerful commercial and industrial city "into the position of a lethargic agricultural community." The political ideal slowly gained ground that every Roman should be entitled to a plot of land sufficiently large to insure him and his family the opportunity to eat.

The rule of the Tarquins also taught the Roman people for several centuries to beware of political leaders who proposed to better their lot by public relief or public works. Spurius Cassius, who was suspected of trying to seduce the people with public relief, was sentenced to death. Then there was the case of Spurius Mælius, who set about relieving Rome from famine by "buying up corn at his own expense through the agency of his friends and clients."[3] He, too, was sentenced to death.

ECONOMIC ORIGIN OF ROMAN DEMOCRACY

509 B.C. TO 218 B.C.

After the flight of Superbus, an oligarchical government run by the great land holders who had opposed him was established. The concentrated wealth of this group, after the overthrow of the commercial nobility, immediately elevated them to power. The kingship was abolished and two annually elected consuls were substituted. Legislative power was vested in a legislature consisting of the *Comitia Centuriata,* an assembly of all the people, and a Senate, composed of a small group of selected persons. The consuls were

[1]Neville Ure, *Origin of Tyranny,* page 225.
[2]*Ibid.,* page 226. [3]*Ibid.,* page 229.

first selected in the *Comitia Centuriata* and, if their election was approved by the Senate, they took office. Both the *Comitia Centuriata* and the Senate, however, were highly undemocratic. Voting in the *Comitia Centuriata* was based upon property qualifications so that the wealthy commanded a clear majority. The Senate consisted entirely of representatives of the patricians, descendants of the original settlers who had populated the hills of Rome; the plebeians being freemen who had migrated to Rome after this early period. In general, the patricians were great landed proprietors while the plebeians were small landholders or artisans. No one but a patrician could be nominated for the consulship and, thus, the patrician class completely controlled the executive and the legislature of the republic. All legislation, furthermore, had to be initiated by the consuls, and so, even in the *Comitia Centuriata,* the minority votes of the plebeians could be cast only for or against laws proposed by the patrician order.

In this first period of the republic, there were two basic trends: a steady diffusion of wealth among the lower classes, and, accompanying this diffusion of wealth, a steady diffusion of political power among the people. When the diffusion of wealth had become sufficiently great, a vigorous free government flourished in Rome, with an agrarian capitalistic system providing a livelihood for any citizen willing to work.

This redistribution of wealth was largely the result of war. The patricians needed the services of the plebeians to defend the government against hostile neighbors, and the plebeians demanded[1] and

[1]The plebeians enforced their demands by a series of "secessions." A secession was simply a sit-down strike by the people who refused to fight unless their terms were met. The success of the people in these strikes was assisted by another factor. Though the last Tarquin had been banished, the oligarchical government was for many years fearful that Superbus or some of his family might bribe the people to restore them to power. During his life Superbus did try to do exactly this several times. Livy states that as long as Superbus lived the people received from the Senate "multa blandimenta (gifts)." (Livy II. 9.) Thus the property of the Tarquins in the state was distributed among the people. The patrician oligarchy is also described by Dionysius as "taking many measures friendly to the poor that they might not go over to the tyrants and betray the commonwealth by considerations of personal gain." (Dion. Hal. V. 22.) Thus though the government of the patricians was oligarchical in its nature, it dealt with the people cautiously and generously. At the time of the first secession, one of the leaders of the people is pictured by Dionysius as reminding "the patricians how the plebeians had rejected the great gifts that the banished Superbus had offered them as an inducement to break faith with the patrician government." (Dion. Hal. VI. 74.)

received allotments of land taken from subjugated tribes.[1] This process continued until the great majority of Roman citizens possessed sufficient land to feed, clothe and shelter their families tolerably well.

As the ownership of land became widely diffused in the Roman state, the oligarchical government of the patricians, step by step, disappeared. After a period of struggle, the plebeians secured complete control of the government. The old *Comitia Centuriata* was first challenged by an exclusive assembly of the plebeians called the *Concilia Plebis*. By degrees this assembly emancipated itself from the veto power of the Senate, eventually becoming the supreme lawmaking body of the state.

The Roman Senate, shorn of its power to veto the legislative acts of the people, became a mere advisory body to the magistrates of the state and for a time ceased to obstruct the interests of the common people. At the same time, all offices were thrown open to the plebeian class. Plebeians were elected Consuls, Censors, Prætors and appointed Senators; they controlled the sacred colleges of the pontiffs

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[1]The dispersion of wealth in the Roman state caused by plebeian acquisitions of land—a dispersion which continued until nearly all Romans were property holders—and its disintegrative effect on the oligarchical government of the patricians is recorded in many sources. Here we have selected several passages from *An Economic Survey of Ancient Rome,* Volume I, edited by Tenney Frank:

"Around 406 B.C. war broke out between the Romans and the Veii. At the end of this war a distribution of lands taken from the enemy was made to the plebeians."

On page 23 the political effect of this distribution is commented on:

"The significant fact is that *the poor of the city were now settled* as voters of good standing, and the four new wards of small land owners very much strengthened the voting power of the plebeians in the Assembly and *gave considerable power to the democratic party.*" (My italics.)

Page 33 (after another distribution of public land to the plebeians):

"In the 6 new wards we may assume that over 20,000 poor citizens were settled."

Page 37:

"In 393 B.C. the city of Rome (urban and rural) had only 152,000 citizens. Subsequent growth was slow because of the Gallic disaster and frequent wars. Thus in 339 B.C. the population had risen only to 165,000. But there was this difference that *now nearly all men were property holders,* thanks to the settlement of the Veientane and Pomptine regions." (My italics.)

Page 38:

"By 318 B.C., enough citizens had moved to the ager Falernus to justify the formation of the *Tribus Falerna.*" (Note how a new Roman Tribe was formed. Later on the Tribe, as a basic political unit, will be discussed.)

and augurs, the oldest strongholds of patrician supremacy and the last to go. Marriages between patricians and plebeians, hitherto prohibited, were legalized. The patricians tended to survive only as a blue-stocking and politically conquered class.[1] Indeed, the power of the people became so great that many patricians were adopted into plebeian families in order to rid themselves of the political handicap of blue-bloodedness.

The legislative supremacy of the *Concilia Plebis* raised a democratic issue. Since only plebeians could vote in it, the *Concilia Plebis* discriminated against patricians. Once the plebeians had obtained the upper hand in the lawmaking process, this undemocratic situation was remedied. Two popular assemblies were created which included all the people, patricians and plebs alike, but in which the plebeian class could exercise control.

The first of these, the *Comitia Tributa Populi,* became the supreme law-making body of the state. In this popular assembly, the lesser magistrates of the Republic were also elected. Legislation in it was effected in a democratic manner. Each Roman voter was assigned to a Tribe. There were some thirty Tribes. Each Tribe voted as a unit and cast one vote. The vote of each Tribe was determined by the opinion of a majority of voters within it. For a magistrate to be elected or a legislative proposal to pass, the candidate or measure had to obtain an absolute majority of the thirty-five Tribal votes. The system was similar to that which is used in the United States for the election of a President, except that while the States have varying electoral votes, the Roman Tribes had only one each.

Before a law could be passed, its subject matter had to be proclaimed to the people a certain number of days in advance of its consideration by the *Comitia Tributa.* Actual voting was preceded by a *contio,* an informal meeting of the people in the Forum at which "a limited debate was permitted by a presiding magistrate."[2] Then the proposed measure was submitted to the *Comitia Tributa* for a vote. Ropes were stretched across the Forum, forming as many compartments as there were Tribes. Each voter received an affirmative ballot "bearing the letters U. R. (*i.e.,* ut rogas)" and a negative one "marked A (*i.e.,* antiquo)." Balloting was secret and the ballots

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[1]Later on, this class, through intermarriage with the rich in a new period of concentrating wealth, becomes again politically powerful.

[2]Frank Frost Abbott, *Roman Political Institutions.*

were deposited in boxes at the end of each Tribal compartment. The boxes were under charge of *custodes.* The ballots were counted by officials called *diribitores,* who reported the results to the presiding officer of the assembly. The presiding officer then announced them to the people.

When the *Comitia Tributa* met to elect magistrates, each voter received "a blank tabella" on which he wrote the name of the candidate of his choice. The *Comitia Tributa* also exercised the power to confer citizenship on individuals or groups. Citizenship carried with it the right to vote in the *Tributa* and the enfranchisement acts of the assembly regulated the distribution of new citizens into the Tribes.

The election of higher magistrates[1]—Consuls, Censors and Prætors—took place in the second popular assembly, which was created by drastically reforming the *Comitia Centuriata.* In addition, this assembly kept its important and ancient power to declare an offensive war.

In the old *Comitia Centuriata* voters had been grouped into arbitrary units called *centuries.* There were some 193 centuries and each century had *one vote.* The numbers in each century varied. Centuries were in turn divided into five classes according to the wealth of their members. The centuries of the first class, the richest property holders, had been made so numerous that they commanded a clear majority and this was the key to the control of the old *Comitia Centuriata* by the rich.

In the new *Comitia Centuriata,* patricians and plebeians continued to be grouped in centuries, all centuries having either one vote or one-half vote (this matter is in dispute among scholars). Centuries

[1]Some of the offices of the Republic could only be filled by candidates from plebeian families, and voting for candidates to fill these offices took place in the Assembly of the Plebs (the *Concilia Plebis*). The most important plebeian office was that of Tribune. Every year the Assembly of the Plebs elected ten Tribunes. Later on the election of the Tribunes was transferred to the *Comitia Tributa,* but only candidates from plebeian families were eligible. The office of Tribune was originally established to protect the plebeians from the patrician class when it dominated the government, after the exiling of Tarquinius Superbus. The office of Tribune had two vital powers. Among the magistracies, only the two Consuls and the ten Tribunes could normally propose legislation to the Roman Assembly. Each Tribune also had the power to interpose his Tribunician veto to any law proposed to the Assembly or to any ordinance issued by a magistrate in pursuance of his office (particularly sentences imposed by judicial magistrates on plebeians). One veto was sufficient to kill the law or ordinance.

continued to be divided into five classes of property holders. But now the richest centuries commanded only *one-fifth* of the total votes of all centuries. Control passed to the small property holders —voters with one, three and six acres of land who comprised sixty per cent of the centuries and who were the great bulk of the people. For a candidate to be elected to one of the higher magistracies or for the reformed *Comitia Centuriata* to declare an offensive war, it was necessary for the candidate or the declaration of war to carry a majority of the centuries. The number of centuries was greatly in excess of the number of Tribes.[1]

As democratic government emerged in Rome, the people battled to preserve the economic condition which had brought it into existence. The people bent their energies to protect the diffusion of wealth that had been achieved and to further that diffusion. Laws were passed prohibiting any Roman from owning more than a certain amount of public land, the source of the people's economic power. The people, too, made war on other economic practices which caused wealth to concentrate unfairly. Chief among these was usury.[2] War often compelled the Roman citizens to borrow money—to mortgage his farm or his business. At intervals, the accumulation of debt and impending foreclosures threatened to deprive many citizens of their means of livelihood and to disturb the condition of relative economic equality. So free government periodically took steps to

[1]A Roman citizen without property was still entitled to vote in the *Comitia Centuriata* He was placed in a proletarian century. There was also a century of the tardy—a century in which were put all who came late to an election. As in the *Tributa,* voters were given ballots and the voting was secret. The voting, however, in the *Comitia Centuriata* was by centuries instead of by Tribes.

Mention should be made of the fact that there were also property qualifications on the suffrage in the *Comitia Tributa.* Thirty-one of the thirty-five Tribes were known as rural Tribes, and to be a member of a rural Tribe a voter had to own land of a stated acreage (a *fundus*) or other property of equivalent value. The propertyless voters were put into four Tribes called urban Tribes. The property qualifications on the suffrage did not in this period prevent a substantial rule of the people since the majority of the people had enough property to qualify for the rural Tribes and enough to exercise control in the *Comitia Centuriata.* Ultimately the property qualifications for the suffrage in both the *Comitia Tributa* and the *Comitia Centuriata* became meaningless, and manhood suffrage, in substance, appeared in both these popular assemblies.

[2]One of the most memorable victories of the emerging rule of the people was the abolition of slavery due to debt which had existed under the patrician oligarchy at Rome as it had under the Eupatridid class government in early Athens.

protect the people from unjust debt. It waged relentless war on usury. Government commissions were appointed to scale down debts. Sometimes the government bought up claims so that debtors could be given more lenient terms; or the government advanced new credit to avert foreclosures. When foreclosures took place, the government came to the rescue of the evicted. The state did not give him a job on a public works project or keep him alive with a dole. The landless were given new allotments from the public domain, which consisted of land taken from subjugated tribes and held in trust for the Roman people by the state. Government then saw to it that capital could be obtained at fair rates of interest. Under this kind of public relief the state could not exert coercion over the political lives of citizens economically distressed. The unemployed went back into production and their political liberty remained intact.

One notes also in this period a correlation between diffused wealth and sound family life. Family life devoted its energies to rearing children to venerate the state, to regard public office as a public trust, to shun luxury and license, and to work for the strengthening of the whole nation. There existed the institution of the *censor,* an official charged with removing from the list of voters the name of any man whose private life was immoral. The drunkard, the adulterer, the man who did not pay his honorable debts lost his political rights.

It must not be imagined that this period of Roman democracy was the millennium for the people. The people did not live in luxury. There were plenty of hard times. Some of the plebeians remained landless and constituted a propertyless element which could barely eke out an existence. There were both rich patricians and rich plebeians, though their fortunes were not extreme. Graft in politics and business was certainly not unknown, but the level of public and private morality was high when contrasted with subsequent periods. The economic interests of the poorer plebeians were not infrequently betrayed within their own order. But taken as a whole this period was the high-water mark of economic, political and moral progress for the Roman people.

In the days of Tarquinius Superbus, the patrician government that followed the monarchy, or during the last century of the Republic, their lot was much worse. Under the Tarquins the people had been reduced to virtual slavery. Under the patrician oligarchy they had

been generally propertyless and without effective civil or political rights. In the last century of the Republic they were mostly a jobless and forlorn proletariat buried in slums. It is only in the present period that the people in general have property, opportunity to work and eat, the dignity and immense advantage of effective civil and political rights which they can enforce.

The Romans of this period kept more clear of degrading poverty, practiced a higher private and public code of morals, and walked the earth more as freemen than they ever did at any other time in the centuries which lay between the overthrow of the monarchy and the destruction of the Republic. The economic factor which underlay the progress of this period is unmistakable. It is in this period that wealth becomes more diffused in the Republic than in any other.

Such was the great Peasant State of Rome whose economic foundation Lord Macaulay, the eminent historian, clearly observed when he wrote:

> "Then none was for a party;
> Then all were for the state;
> Then the great man helped the poor,
> And the poor man loved the great:
> Then lands were fairly portioned;
> Then spoils were fairly sold:
> The Romans were like brothers
> In the brave days of old."[1]

THE LESSON OF THE TARQUINS IS FORGOTTEN

218 B.C. TO 49 B.C.

The Peasant State emerged in outline by the beginning of the third century B.C. It was triumphant by the latter part of the third and still vigorous during a part of the second. With the beginning of the Second Punic War, however, a profound change, already under way in the economic and political life of the Roman people, was sharply intensified.

The economic system was ultimately transformed from one predominantly agricultural into one predominantly industrial and

[1]Thomas Babington Macaulay, *Lays of Ancient Rome: Horatius.*

commercial. It was during the Second Punic War that the people experienced their first taste of the corruption of business and government that was to go hand in hand with the swift expansion of trade and commerce. Corporations, formed to furnish the state with military supplies, were caught selling the commonwealth defective goods.[1] The people were shocked, but this was but the beginning of what was to become a tidal wave of predatoriness in business and government. This exploitation of trade, industry and government produced a new concentration of wealth which immediately affected the political and economic life of the people.

The Senate, dominated by rich men, becomes the principal legislative house while the Assembly of the People ceases to function. In substance, oligarchical government is substituted for the democracy of the Peasant State. Whereas, under the Peasant State the magistrates (the consuls and tribunes) had proposed laws to the Assembly of the People, under the new order this was done only with the express permission of the Senate (*auctoritas Senatus*). The Senate proceeded to legislate by decrees (*Senatus consultum*) without reference to the popular assembly. At the same time, concentrating wealth destroys the capacity of Roman capitalism to provide the people with jobs.[2]

The life of Roman democracy depended on the capacity of Roman capitalism in the Italian peninsula to provide work and a reasonable standard of living for those eligible to participate in the Roman government. It was in the Italian peninsula that the Roman voters lived—largely in the growing city of Rome and the regions adjacent. Though the franchise was gradually extended to all the people in the Italian peninsula (adult male freemen or freedmen) and ultimately to foreign peoples, such as the Gauls, its use was confined to the people of the Italian peninsula, who lived either in Rome or within a reasonable travelling distance of the city of Rome, since no one could vote except by coming in person to the city.

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[1] *Economic Survey of Ancient Rome*, edited by Tenney Frank, Volume I, page 102.

[2] The political and economic effect of concentrating wealth in the Roman state—the control of government by wealth and the increase of a jobless and hungry proletariat—is aptly put by Paul Louis, *Ancient Rome at Work*, page 19. (The italics are mine.)

"At every step history shows us that, side by side with the *capitalist aristocracy* which seized upon the highest posts in proportion as it monopolized the *sources of wealth*, there existed a *famished proletariat* and that this proletariat increased in numbers *as the aristocracy tightened its hold*."

There were only two ways in which Roman capitalism could have been kept productive and the life of Roman democracy prolonged. The Italian peninsula might have been made part of a workable and productive system of international capitalism. This would have placed on Roman statesmanship the enormous task of keeping trade free and productive both at home and in the nations which Rome conquered. The nations conquered by Rome were generally older civilizations in which wealth had already concentrated to an extreme degree and effectively restricted production. The productive powers of these economies were insufficient to keep their own populations out of crushing poverty. Their reform, to make trade free and productive, would have been too staggering a task, even if the Romans had been governed by economic geniuses.

The best chance for Roman democracy lay in the fullest development of Roman capitalism in its domestic market (industry, trade and agriculture). Such a development could have been advantageously implemented by a control of needed raw materials and minerals in conquered countries for the benefit of producers engaged primarily in the production of wealth for consumption in the Italian peninsula. Imports of raw materials or minerals not produced or producible at reasonable cost in the domestic market could have been paid for by exports. Or they could have been extracted as tribute by the state and then sold on the basis of competitive bids to Roman business men, thus supplying the state with revenues. The successful and sustained development of the domestic market would have required the use of a tariff to protect the greater purchasing power of that market from the competition of pauper labor and methods of unfair competition on the outside.

But Roman statesmanship permitted a growth of concentrated wealth to shatter the capacity of Roman capitalism to provide employment or a reasonable standard of living for the people in the domestic market, while Roman business men plundered conquered nations without thought of reforming economic conditions which obstructed the development of trade. As the economic foundation of Roman democracy collapsed, the remedy of public spending on public works was applied in Greek fashion to keep the people afloat and through government spending Roman democracy was liquidated.

The concentration of land in the hands of the few—great estates

(*latifundiæ*) cultivated with slave labor—destroyed the small Roman farmer and the buying power of Roman agriculture in the domestic market.[1] Instead of numerous independent farmers making a living out of the land, exchanging their surplus products for industrial wares, and thus furnishing a broad market for industry and commerce, there existed only a limited market for industry and commerce to service the luxury needs of a few great land owners.

Dispossessed farmers migrated to Rome, but in Roman industry and trade, concentrated wealth had taken its toll of employment. A fairly free industrial class, which had prospered in Rome during the period of the Peasant State—making weapons, vehicles of transportation, military clothing, household utensils, tableware, furniture and farm implements on a small scale—went to the wall.

The concentration of industry into large units—large factories employing many workers, chiefly slaves—and the concentration of credit facilities into the hands of a few powerful bankers and lenders, sealed the doom of the small industrialist.[2] Like the small farmer,

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[1]Not only was the small land owner unable to compete against slave labor when he tried to market his crops, but even if he tried to make his acres support his family he was subjected to the confiscation of his land by great proprietors. Jules François Toutain (*The Economic Life of the Ancient World,* page 231) says:

"Furthermore, the big estates lay alongside of small properties, or might even surround them. As happens in such cases, the owner of the big estate wanted to round it off by obtaining the adjoining land. 'Failing a purchase by private treaty, there was a war of trickery, legal expropriation, and violent eviction without formality.' 'The rich,' Appian tells us, 'bought or took by force the little inheritances of their poorer neighbors.' Plutarch tells the same story The absence of the head of the family on military service made such usurpation all the easier. 'Their parents and children, if they had some powerful neighbor, were driven by him from their homes,' so Sallust speaks These evictions became a literary theme exploited by rhetoricians and poets."

The growth of large estates in Athens under the rule of the Eupatrids was also greatly facilitated by similar methods of legal favoritism or forthright seizure.

In a much quoted passage, it was the opinion of Pliny the Elder that it was the growth of huge *latifundiæ* which destroyed the Roman economic system (Toutain: page 231).

[2]In his *Economic History of Rome,* page 271, Tenney Frank, discussing the rise of large-scale industry during the period of the Republic, says:

"The forces which worked in favor of large-scale and monopolistic production differed but little from those of a similar tendency today."

Under the early Empire there was a terrific rise in prices caused by the proliferation of monopoly in the Roman economic system, and the increasing restriction of production which occurred ultimately reduced the Roman peo-

he could not compete against slave labor, nor could he obtain capital to modernize his establishment. The great Roman bankers were undoubtedly in league with the large industrialists to protect them from the menace of new competitors. One of the most dominant traits of modern capitalism has been the protection afforded large industrialists by large bankers, who will not permit credit to get into the hands of persons opposed to the interests of their powerful clients.

In the Roman economy, the field of distribution offered some hope to the small business man. The small retail establishment required far less capital and there was always a fringe of usurers willing to gamble on this kind of business. Since one finds numerous small retail establishments in the Roman economy, it is possible that, as in modern capitalism, the field of distribution became overloaded with small enterprisers, who were barely able to live on the meager profits.

The free Roman who lost his farm or his small industrial establishment found it difficult, indeed, to make a fresh start. He could go into industry only if he had enough capital to buy slaves and, if he wished to work for wages, he found the ubiquitous slave blocking the door to employment. If he turned to retailing as a possibility he found the field already overcrowded. An economy owned by a few rich men and operated largely by slave labor had little capacity to consume and Rome became filled with a hungry and increasingly clamorous proletariat.

The concentration of wealth in agriculture reduced the buying power of agriculture and automatically contracted production in the domestic market. The concentration of wealth in industry and banking still further limited production in this market. Production revolved around the buying power of a few rich men. There was an unhealthy emphasis on the production of luxuries and an absence of production devoted to turning out staple articles at reasonable prices which could have been bought by the people and which would

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ple to terrible poverty. The restriction of production in industry, however, was well under way in the last century of the Republic.

The free artisan class of the early Republic, trapped by the destruction of agricultural buying power and the growing dearth of industrial opportunity for small enterprisers, is observed by Paul Louis, *Ancient Rome at Work*, page 19:

> "Free artisans, haunted always by ruin and famine, fell from time to time in this tattered proletariat, which rarely found work for its hands and which the very dearth of industry and the gradual flight from the land forced into perpetual inaction—an unceasing danger to the stability of institutions."

have created employment and raised standards of living for the masses.[1] Concentrated wealth thus made private business in the domestic market incapable of furnishing employment or a decent standard of living to a sizable part of the population. Had capitalism in this domestic market enjoyed a healthy and sound growth, it could have afforded a large opportunity for the Roman people to earn their daily bread without dependence on the charity of the state for their existence—a condition which was to arise and which was to make dictatorship inevitable.

The destruction of buying power in the domestic market causes Roman industrialists to turn to foreign trade in the hope of finding customers. The expansion of Roman industry in foreign markets was, however, checked by the sharply limited amount of buying power in the world outside Rome. Outside the Italian peninsula, concentrated wealth was also firmly entrenched and buying power was likewise scarce. Hence, the Roman industrialist's attempted flight from the domestic market into international markets could not result in any appreciable expansion of industry which would have relieved the growing crisis of an unemployed and impoverished people.

The shattered capacity of Roman capitalism to provide voters with jobs is aggravated by two other factors. Rome adheres to a policy of unrestricted immigration. This policy increases the number of voters. It also results in a transplantation of the morally cancerous vices of the East to Rome. As these vices take root and flourish, the effect on Roman family life—the incubator of private and public morals in the Peasant State—is thoroughly disintegrative. The men who had established Roman democracy had been a sturdy breed, inured to every sort of hardship and possessed of magnificent powers

[1] Most of the important industries in Rome were engaged in the manufacture of fine togas, expensive farm machinery such as steel plowshares, scythes and pruning-hooks for the *latifundiæ*, costly pottery, delicate glassware, artistic bronze and copper platters, bowls and ladles, and a variety of kitchen utensils, which could be bought only by the well-to-do; high-priced building materials such as marble and brick, for the houses of the rich; elaborate furniture for the great mansions of the Palatine; and a tremendous variety of jewelry products for wealthy Patrician ladies. There was a remarkable lack of industry devoted to turning out low-priced articles which could be bought by the people. The reason for this is clear. The concentration of wealth had concentrated income, and Roman industries had to live off the buying power of the rich. We do find that part of the Roman woolen industry did specialize in cheap patch-quilts and felt blankets for the poor, but this kind of industrial activity seems to be exceptional.

of self-discipline. The newcomers from the East were frequently soft and degenerate people, proficient in the art of commercializing vices previously unknown to the Romans. War also increases the number of voters in the Roman state. Slaves pour into the Italian peninsula. Many of these obtain their freedom and the status of citizens. Finally, Roman industry is deprived of protection against foreign producers paying still less for their raw materials and labor in the sweatshops of the East. Import duties are abolished around 60 B.C.[1] Julius Cæsar restores them in the Forties and gives a temporary stimulus to Roman industry, but by that time the economic system is too far gone to postpone much longer the destruction of Roman democracy.

WAR BOOTY

The shattered productive powers of Roman capitalism are for a time concealed by the device of war booty. For a time the people of the Italian peninsula live off "the pillage of the world." The pump-priming effect of war booty sustains for a period an exhausted capitalism.

Public war booty enables the state to undertake an increasing volume of public works. The Roman state either exacts grain as tribute from conquered nations or buys it for cash in foreign markets with its war profits. This grain is at first sold by the government, at a low figure, to the poorer classes. Later on, the poverty of the people becomes so formidable that it is distributed free to the unemployed.

Private war booty operates to stimulate private business and jobs in the economic system. War becomes a means for many poor people to acquire purchasing power. The common soldier receives a share of all plunder, chiefly in silver and gold. Continual showers of foreign gold and silver stimulate production in a Roman capitalism, which, without this stimulation, would have collapsed sooner in unemployment and political disaster. But there came a day when the

[1]Even at this distant date, one perceives the modern cleavage between industrialists and financiers over the issue of free trade. The Roman financiers who farmed the taxes in the conquered nations of the East were strongly in favor of abolishing import duties at Rome. Their abolition meant more business for the East, richer sources of taxation and, hence, larger profits for the Roman financiers who contracted with the Roman state to collect the taxes. (G. Ferrero, *Greatness and Decline of Rome*, Volume I, page 312.)

conquering powers of Rome reached a limit, and when countries previously conquered had been drained of their spoils in gold and silver. At this point, the Roman people became dependent on the *personal* fortunes of one man and his friends to supply them with jobs through public spending on public works. That man was Octavius, and as he supported the people, the people supported him with increasing grants of power, until dictatorship had been put on a firm and permanent basis. We shall come to Octavius in a minute.

REFORM

The engulfing tide of plutocracy which sweeps over the Roman state encounters opposition. Reformers appear and at intervals of time the domination of the Senate is broken. Popular leaders revive the ancient powers of the Assembly of the People to pass legislation with or without the approval of the Senate, and the Consuls and Tribunes regain their right to introduce laws without the permission of the Senate. But the results of reform do not interfere with the power of concentrating wealth to restrict economic opportunity for the people. Roman politics do not have a single reform administration which is able, even temporarily, to loosen the grip of plutocracy on the economic system. Issues which really threaten the rule of plutocracy—bills to distribute public lands to the poor, to compel generals to return to the Treasury enormous booty taken in violation of the law, to control usury or to give debtors relief from usury through the cancellation of debts—are either defeated, or where laws seeking these ends reach the statute books in spite of opposition, wealth stays or weakens their enforcement or effects their repeal.

The failure of reform is due not only to the political strength of plutocracy but also to the insincerity and corruption of reform itself. The popular party is exploited time and again by cliques either seeking power without any sincere interest in reform or capacity to reform, or by groups of plutocrats making war for their own enrichment against other plutocratic groups. The career of Pompey is typical of the exploitation of reform.

Pompey begins his political career as a conservative. Through the conservative party he obtains military commands which make him a national figure. Suddenly, Pompey the reactionary becomes Pompey

the reformer, and jumps to the popular party. Elected Consul by the democratic party, one sees him inflaming the people with a speech in which he tells them, "too long had they watched votes being sold by auction to the highest bidder in the tribunals; too long had they groaned under the *intolerable iniquities of official plunderers in the provinces*."[1] The reformer Pompey promises the people, "to set his hand to the redress of these abuses."[2]

Within a few years Pompey perceives a rare opportunity to make his affiliation with the popular party pay handsome dividends. The game is to replace the Roman General Lucullus, who is the commander in chief of Roman troops in the East, with Pompey. Lucullus has been accumulating a vast personal fortune from war booty and Pompey sees his chance to provide for his old age. The effort of Pompey to succeed Lucullus is financed by a group of powerful capitalists. It seems that though Lucullus had no moral inhibitions about seizing for himself an enormous fortune in violation of ancient and unrepealed laws of the Republic, he had, as an aristocrat, a contempt for the capitalist class, which always descended upon every conquered area to bleed it white collecting taxes and making usurious loans. Because Lucullus had interfered with their customary rapacity, the capitalists had gotten behind the candidacy of Pompey to oust Lucullus, with the understanding that he would look more leniently on their activities.

Lucullus was a member of the conservative party and over his command the popular party, headed by the reformer Pompey, waged successful political war. Lucullus was deposed, Pompey installed, and within a few years the latter returned to Rome one of the richest men in the ancient world, and with a firmly established reputation for having been one of the most effective plunderers of Roman provinces in the history of the Republic. Shortly afterward, Pompey, the multimillionaire, abandoned reform and returned to the conservative party—a switch which brought him into fatal collision with Julius Cæsar, the people's champion.

The sincerest effort at reform belongs, apparently, to the period of the Gracchi. In 133 B.C., Tiberius Gracchus was able to win election as Tribune of the People, an office created to protect the popular interest. Tiberius is exercised about the exploitation of the national

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[1] G. Ferrero, *Greatness and Decline of Rome,* Volume I, page 181. My italics.
[2] *Ibid.*

domain by predatory interests—a domain consisting of lands taken in conquest and supposedly held in trust by the state for ultimate distribution to the people. This domain had almost vanished as predatory interests had seized huge tracts of it in violation of existing law.[1] A census disclosed that most of the Italian peninsula conquered by Rome was owned by a small number of families.[2] The Roman Senate was thoroughly in league with the exploiters of the national domain and so Tiberius fell back on the slumbering legislative sovereignty of the Assembly. He moved the enforcement of ancient laws which had restricted the number of acres that any single owner might possess and a resumption by the state of all land "not held by authorized persons." In this way Tiberius hoped to do away with sharecropping and farm tenancy and restore the valuable old class of small freeholders. Plutocracy, however, hired thugs and Tiberius was murdered as he was entering the Roman Assembly.

Ten years later, his brother, Caius Gracchus, made another attempt to redistribute wealth. He established a land commission with power to confiscate any estate acquired by looting the public domain. Though he scared the rich for a time, they also contrived his assassination. Within a short while after his death, Roman plutocracy

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[1]The Licinian law had limited acquisitions in the Ager Romanus (the national domain) to five hundred jugera. Land grabbers soon made this law a dead letter, and in many cases they boldly seized large pieces of public land without even bothering to negotiate with the state for them. The looting of the Ager Romanus put an end to the policy of the government in the Peasant State which had used the lands taken in conquest from neighboring Italian communities to give indigent Romans a fresh start when they lost out in the economic struggle. In the last century of the Republic a number of land bills, providing for the distribution of land to the poorer classes, are enacted into law. But these land bills invariably encounter a dearth of public lands to distribute. Where they provide for the purchase of land by the state, the price asked by great proprietors is either exorbitant, or the proprietors are able to frustrate attempts to condemn their surplus land at a fair value.

The exploitation of the Ager Romanus should be kept in mind when the reader comes to the development of capitalism in the United States. At one time the Federal Government in America, too, held in trust for the people a vast national domain. It was the intent of public opinion that this domain was to be distributed to large numbers of small owners. The American counterpart of the Licinian law was the act of Congress which limited individual acquisitions of the national domain to homestead tracts of one hundred sixty acres. The men who grabbed the national domain in America made this law, too, a dead letter and engaged in equally fraudulent seizures of great tracts without negotiating with the state for their acquisition. Gustavus Myers in *History of the Great American Fortunes* gives a vivid picture of the spoliation of the Ager Americanus.

[2]Hendrik Van Loon, *The Story of Mankind.*

had enacted a law giving the land freebooters a clear title to their holdings.

With the passing of the Gracchi, reform becomes the weapon of opportunists. In the troubled years between 121 B.C. and 49 B.C., one beholds unscrupulous demagogues like Saturninus and Glaucia, competent generals like Marius, turned into blundering reformers; desperate characters like Catiline,[1] and degenerate rascals like Publius Clodius, arousing the people in their lust for power or pelf. One also sees the flash of daggers as plutocracy, temporarily embarrassed, falls back on this means of last resort. But as concentrating wealth leaps clear of all reform hurdles, the poverty of the people increases

[1]At the time of the conspiracy of Catiline in 63 B.C. Rome was in the midst of a severe depression. Some three hundred thousand persons were on relief. The city reeked with slums where the descendants of free yeomen who had lost their small farms to great landlords or to usurers rotted on the dole. There, too, were perishing small business men crushed by usury and unemployment. The imperial democracy which held a "world beneath its sway" was actually at the mercy of "a small group of usurers" (Ferrero, *Greatness and Decline of Rome*, Volume I, page 249), and usury was a powerful force preventing the expansion of production in the Roman economy. All efforts to curb the rapacity of the money-lending class had failed dismally, and the people had come to hate this class with a fury.

Lucius Sergius Catiline announced himself a candidate for the Consulship on a platform of debt cancellation. He proposed to do this through legal processes. Like our Share-the-Wealth movement or the Townsend plan, the proposal of Catiline swept over Rome like a flame. Catiline stood an excellent chance for election. But Cicero, who was Consul, made up his mind that Catiline's assault on the creditors of Rome must be defeated at all costs. The foremost lawyer in Rome, Cicero was the spokesman for the money-lending class in politics. Cicero had played a leading role in the passage of the Manilian law which had deposed Lucullus from his Eastern command and handed it over to Pompey. In two telling speeches in the Senate, Cicero, the close friend of Atticus, one of the most powerful bankers in Rome, had painted an alarming picture of what would happen to the stability of investments if Lucullus continued to interfere with the freedom of investment. Through a shabby trick he cheated Catiline out of victory.

Mobs of voters from other towns and the countryside were pouring into Rome to vote for Catiline. The remnant small farmer class were particularly excited and many were trudging miles to get in a lick at their oppressors. Now all voters had to register within the city of Rome a certain period of time before the election. Cicero had the Senate enact a law increasing this period of time (the Senate was legislatively dominant at this time). The effect of this law was to prevent a good many voters outside of Rome from participating in the election. By this trick Catiline was defeated. After that, some of his followers attempted Civil War and in the fighting Catiline was killed.

The depression which gave Catiline's appeal such strength was abated by the arrival of Pompey and his troops from the East with fresh war booty Within a few decades another depression would overtake Roman business This depression would coincide with an exhaustion of war booty sources. From this depression Roman democracy would not escape. A broken-down capitalism which produced a Catiline would soon spawn a monarchy.

in spite of war booty. Rome becomes divided into the rich and a proletariat, with a yawning chasm between a few men colossally wealthy and masses of poverty-stricken people.

An increasingly numerous and unemployed proletariat stood ready to approve enthusiastically "every act or proposal against the rich and the powerful."[1] An ominous indifference to corruption in high places spread among the people. Whereas in 142 B.C., the Roman people were shocked because the Prætor Hostilius Tubulus had sold his vote in a murder trial, fifty years later the charge of political bribery caused scarcely a ripple of public indignation. The degenerating Roman proletarians had by this time taken to bribery themselves. At every election any vote commanded a sum of money in spite of numerous laws forbidding the bribing of voters. So the poor made the rich pay as much as they could for the privilege of business racketeering, which couldn't affect the proletarian's job since he generally had none. While the Roman proletariat became human jackals, the moneyed aristocracy degenerated into sensuous men, interested only in protecting their enormous wealth from the rabble so that they might employ it for their own physical, mental and moral degradation.[2] Concentrating wealth was to generate the

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[1] G. Ferrero, *Greatness and Decline of Rome*, Volume I, page 214.

[2] As wealth concentrated in the Roman economy, Roman family life decayed completely. Adultery spread and ceased to be noticed as a moral offense. Religion waned into lifeless forms. Divorce was legally recognized and the grounds for obtaining it continually enlarged until marriage declined into a loose form of cohabitation. The first reported case of a Roman divorce occurred in the year 231 B.C. About the same time one of the vestal virgins was convicted of unchastity. These were momentous events to the Roman people and the shadow of things to come. During the Peasant State divorce had been unknown and adultery had been too serious a crime to be risked But after 231 B.C. divorce and marital infidelity became commonplace. Women and men married thrice or more, or with shocking scandals to their discredit, found their numerous marriages and their scandals no drawback to respectability in fashionable higher circles.

The home ceased to instill ideals in youth. The family which had been the incubator of a healthy patriotism in the days of Roman agrarian capitalism became in commercial and industrial Rome merely a place where children were born. Pornographic literature appeared and spread its virus far and wide. Erotic poetry became a fashionable amusement of the rich. Effete aristocrats of Augustus' day often spent their time writing amorous lyrics, in which they declared that a "night with their mistress was the summum bonum of life."

There was, of course, an old-fogy set on Rome's Palatine Hill—an ever thinning clan who clung tenaciously to the outmoded morals of their more rural ancestors, and who managed to keep their crumbling mansions out of the clutches of the sheriff. To the gibes of the licentious, they still sacrificed piously to the gods, guarded the virtue of their daughters, brought their sons

moral factor necessary for dictatorship—a people willing to be bought.

Suddenly, on the stage of Roman politics moves Julius Cæsar, politician supreme. For a number of years he builds up a solid reputation with the Roman proletariat by advancing and working for popular measures. In 60 B.C., he is elected Consul for the year 59 B.C. During the period in which he is Consul designate, Cæsar put into operation plans to make the popular party thoroughly successful. He brings about a powerful alliance between himself and Pompey, now possessed of millions, and Crassus, the richest man in the Republic. This alliance is marked by the customary exploitation of the popular party for the personal enrichment of its leaders.

Pompey is vitally interested in having his Asiatic administration approved by the government so as to protect his huge fortune from any public inquiry. Both Crassus and Cæsar are interested in cancelling the contract of a tax-farming syndicate which loudly claims that it bid too high for the contract from the state and stands to lose money. Crassus is a stockholder in this large venture and a lower contract price means larger dividends to him. For Cæsar's support, the directors of the company pledge themselves to give him a large number of shares in it.[1] In Egypt, Ptolemy Auletes is anxious to have the Roman state recognize him as the lawful sovereign of that nation and offers Cæsar and his partners a huge sum—six thousand talents—if they will fix it up.[2]

As Consul, Cæsar promptly pays off. The Asiatic administration of Pompey is approved, the contract of Crassus' tax-farming syndi-

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up to respect parental authority, and maintained a simple dignity in the architecture of their homes and the cut of their clothes. About the hearths of this old-fashioned aristocracy often gathered the remnants of a lineage which reached back to the dim foundings of the Republic. They lived in the past when men strove for better things than mistresses, adultery, carousals and the corruption of government. They never ceased to condemn the gaudy homes and bad manners of the plutocracy which had defaced the Rome they loved.

In the Empire as wealth concentrated to a still greater degree morality and religion declined still further until Roman society was thoroughly rotted at its biological core—the family.

We behold one emperor issuing a law forbidding women of Equestrian rank from making money by prostitution. One empress was a notorious frequenter of male brothel houses, disguising herself (so she thought) with a blonde wig and a fake name. Throughout the history of the Empire one hears endless tales of moral depravity in the highest circles and in the background a famished people who periodically display orgies of debauchery when the government, at public festivals, distributes free wine and food.

[1] *Ibid.*, page 318. [2] *Ibid.*, page 315.

cate is cancelled and Ptolemy Auletes is recognized by the Roman government. Cæsar also does not forget to do something for the people. He passes two land bills, providing for the distribution to the poor of public lands still in the possession of the state, and directing the state to purchase additional land from the sums paid into the Treasury by Pompey.

During his Consulship, Cæsar goes so far as not to convene the Senate at all. The Assembly of the People becomes all-powerful, and it is evident that Cæsar intends permanently to "dispense with the Senate" and to make the deliberative assembly of the people supreme except as controlled by himself and the popular party.[1]

As Consul, Cæsar proceeds skillfully to put the popular party on an invincible basis. He hires Publius Clodius, a baby-faced effeminate (his greatest delight was dressing up as a woman) and debauched aristocrat who likes to carouse with the dregs of the population, as his "electoral agent." With an initial expense account, Clodius ultimately creates a ruthless and self-supporting political machine—an American Tammany Hall in its palmiest days. He establishes associations among workmen in every quarter of the city.[2] These associations function as labor and electoral guilds. Then Clodius organizes into troops or decuries a large number of freedmen and "even slaves," under the command of corporals who lead them to vote on "the receipt of orders from headquarters."[3]

Elected to the Tribuneship through the support of Cæsar, Clodius moves expeditiously to make his political machine both legal and self-supporting at public expense.

He passes a law which provides poor citizens with corn, no longer at a low figure, but gratis. Then he passes another law protecting by law the freedom of association to the working classes of Rome, the organizational foundation of his political machine. Finally, he secures the appointment of one of his creatures, one Sextus Clodius, a man of poor and obscure family, to administer his corn law—to draw up the list of those who should be admitted to the free distribution of corn.[4]

Before his Consulship expires, Cæsar obtains command of legions in Gaul. With his departure for Gaul, Roman democracy is well into the breakers which will ultimately dash it to pieces on a reef of public spending.

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[1]Ferrero, Vol. I, page 322. [2]*Ibid.*, page 334. [3]*Ibid.* [4]*Ibid.*, page 333.

THE NEW DEAL OF JULIUS CÆSAR

49 B.C. TO 44 B.C.

In 49 B.C. Cæsar crossed the now historic Rubicon. During his absence in Gaul the popular party has been crushed. Crassus had died—killed in a foreign war. Cæsar's land bills had been unenforced. Pompey had turned conservative and found a way to destroy Cæsar's Tammany Hall. He had discovered among the Tribunes for 57 B.C. a man capable of coping with Clodius—one Titus Annius Milo. Milo had recruited a private band of gladiators and cutthroats, slain Clodius in a brawl, and intimidated voters into submission to the will of Pompey and the reactionary Senate with which Pompey had aligned himself. All these events had brought Cæsar home—since the triumph of the conservative party would have meant his ruin and probably his death. On his return, the people sided unmistakably with his cause. He was voted the dictatorship.

The dictatorship was a constitutional office. It was an emergency post, invoked in times of great public disturbance, and its invocation did not mean that Roman democracy had been scrapped. Though Cæsar was elected dictator a number of times, the old constitution was not formally abrogated. The Senate met and deliberated; the Assembly passed laws and elected magistrates. There were still consuls (Cæsar was elected Consul in every year except 47 B.C.), prætors, tribunes, ædiles and quæstors, and Cæsar himself continually professed to hold his authority by will of the people. Though Cæsar managed to keep to himself a large amount of control over the government, his control was not absolute, even after he had defeated Pompey in battle at Pharsalia and his other conservative opponents at Thaspus.

He could not keep order in his own party. On at least two occasions he was openly defied by Antony and on one of these (Antony's refusal to pay for the confiscated house of Pompey which he had bid in from state auctioneers), Antony had "spread threats and invectives against his leader broadcast throughout Rome." It was "even whispered that he had made attempts to hire an assassin."[1] Throughout his administration, too, Cæsar made repeated efforts to win over to his side the wealthy classes by conciliatory

[1] G. Ferrero, *Greatness and Decline of Rome,* Volume II, page 307.

measures. Thus Cæsar granted a full amnesty to the followers of Pompey; welcomed them back to Rome and gave them back a part of their confiscated estates; reformed the tribunals, giving them a more aristocratic character; modified the criminal laws strengthening the penalties for violence; dissolved the associations of workmen organized by Clodius; reduced the number of the poor who had been admitted to the free distributions of grain; and passed a sumptuary law checking the use of pearls, purple and litters.[1] Only towards the end of his administration did Cæsar "throw off all pretense at constitutional rule"[2] or the appeasement of the rich—policies that insured his death.

When Cæsar took office in March 49 B.C. Rome was already in the grip of a severe business depression. This depression continued to deepen until "distress had grown to appalling dimensions." The remnant small farming class and small business had been crushed with debt. Investment had come to a standstill and capital was in hiding. The excessive incomes of Roman plutocracy had been withdrawn from existing markets, and the sterilization of this large amount of buying power had increased the toll of bankruptcies, abandoned farms and shops.

To cope with the depression, Cæsar cancelled for a year all rents in Rome below two thousand sesterces and below five hundred sesterces in other towns of Italy. He authorized all debtors to value their assets at pre-depression prices and to subtract from the capital owed the interest already paid. To stimulate spending and prevent hoarding, Cæsar revived an ancient law forbidding Roman citizens to keep more than sixty thousand sesterces in gold or silver in their houses. Rome's administrative machinery was cluttered up with useless departments, or departments with overlapping functions. To end this administrative chaos, Cæsar passed laws empowering him to reorganize and consolidate all administrative agencies. He created a public works department and rushed projects to build roads, bridges, temples and public buildings. He passed a law forbidding the mortgaging of an estate for more than a certain proportion of its value; another requiring the owners of large estates and cattle farms to find employment for a certain amount of free labor. A new commission was created to enforce his unenforced land law of 59 B.C. Cæsar made free distributions of corn and oil and even money to

[1] *Ibid.*, page 308. [2] *Ibid.*, page 319.

the populace, and held tremendous public festivals for the amusement of the poor—wild beast hunts and gladitorial contests—performances given in every quarter of the city and in every language to please the cosmopolitan proletariat.

Cæsar was forced to make promises of all sorts, possible and impossible, to all who came near him. He kept his popularity alive by extraordinary political showmanship. Constantly he stirred the imagination of the people with grandiose schemes, such as diverting the course of the Tiber, cutting up the Campus Martius into building sites, building a huge theater, establishing large libraries in all parts of Rome, piercing the Isthmus of Corinth, creating a colossal port at Ostia, building a gigantic road over the Apennines, and the codification of all existing law.[1]

After prodigious efforts, however, Cæsar saw his New Deal failing in every direction.

The depression continued to be malignant and whatever the efficacy of his reforms, Cæsar found it impossible to reform a political and economic edifice that rested on a moral vacuum. His friends conducted a wholesale pillage of public money under his eyes.[2] The laws that had been passed remained largely unenforced. His henchmen took pay from the other side. Attempts to suppress business corruption seemed to generate only new corruption. Everywhere reform degenerated into a shameless opportunism.

The picture of Cæsar caught within a network of corruption in his own party is a classic case of ironic justice. In his climb to power, Cæsar has not hesitated to bribe liberally, and now the degenerating political morals of the Roman people come home to roost.

Most important, Cæsar is running out of money, and the continuance of the depression has driven the proletariat to the verge of dangerous desperation. This depression coincides with the period in which there is a sharp and sustained decline in war booty. The age of expansion has definitely waned and seems closed.[3] Before long "there would be no more unexpected importations of gold and silver captured in war."[4] The shattered productive powers of Roman capitalism, no longer supported by war booty, are ominously exposed. Public spending alone offers a practical way to keep the people alive while they still have political power. But that takes money

[1] *Ibid.*, page 328.
[2] *Ibid.*, page 335.
[3] *Ibid.*, page 265.
[4] *Ibid.*

and where is it to come from? Cæsar still owes his veterans land and money and his land commission is moving at a snail's pace.

An "awful catastrophe seemed inevitable unless some new source of revenue could be discovered."[1] In desperation Cæsar casts his eyes on Parthia (modern Persia). It alone remains for a good conquest and in the fabulous treasures of this Eastern monarchy lies the capital that will relieve the necessities of Italy.[2] So Cæsar prepares to conquer Parthia.

It was his only hope. His failure to stem the depression had caused his popularity to drop. The proletariat and the soldiers were beginning to lose confidence in him and Roman plutocracy was far from impotent. Conservative reaction was rising. While making preparations to conquer Parthia, Cæsar, harassed, weary and ill, throws caution to the winds. He makes indiscreet remarks—that "the Republic exists only in name" and "his wish is as good as a law."[3] He expels from the government two tribunes who had put into jail two persons who had saluted him as king. He receives deputations from the Senate sitting down. He packs the Senate with faithful henchmen—obscure people—and insists on the right to nominate candidates for all important offices, allowing the people only the right to confirm his nominations. Finally, he forces a pliant legislature to make him dictator for life.

All these rash acts aroused Roman plutocracy to a supreme effort. The rich knew that if Cæsar succeeded in his Parthian campaign he would return with enough money to make himself an absolute dictator and that they would be marked out for ruin. At this point Brutus, usurer and slum landlord, and other slum landlords like Cassius—a cabal of the wealthiest people in Rome—unsheathe their daggers. Cæsar is assassinated on the eve of his departure for the Parthian campaign.

Had Cæsar conquered Parthia he might have established a dictatorship modeled along the lines of that set up by Hitler in modern Germany. It might have been a popular dictatorship, professing to serve the economic interests of the people, but run by insiders primarily for their own benefit, and culminating with the passage of time in a ruthless exploitation of the people as they lost their political power.

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[1] *Ibid.*, page 317.
[2] *Ibid.*
[3] *Ibid.*, page 330.

CIVIL WAR

The assassination of Cæsar plunged the nation into a terrible civil war. This war did tremendous damage to industry and agriculture and further depleted the remnant productive powers of Roman capitalism. The heavy contributions extorted by the Triumvirs (Octavius, Antony and Lepidus), "wiped out numbers of small land owners throughout Italy."[1] The murder of so many wealthy families by the Triumvirs "destroyed certain branches of trade which had been very flourishing."[2] Many a merchant was "ruined by the confiscation of ships to provide the fleets of the Triumvirs."[3] The wholesale confiscation of property in general which occurred and the seizure of this loot by the Triumvirs and their cronies did not redistribute wealth. In many cases its effect was merely to transfer businesses and productive property to less competent hands without diminishing the concentration of wealth. The fighting which raged throughout the Italian peninsula, the looting and brigandage which it unleashed, the seizure of bank deposits and instruments of credit, turned what was left of a declining economic system into a madhouse.

The death of the assassins of Cæsar and the end of Civil War did not bring peace. It was followed by a foreign war which entailed more extortions from a crumbling economy. Antony was suspected of intending to make Egypt the center of an independent empire, hostile to the interest of Rome, and Octavius made war on him. With the return of peace finally in 31 B.C. the Roman state was ripe for peaceful and constitutional dictatorship created with the consent of the people. Dictatorship was to be erected on an unshakable foundation by a leader far less spectacular than Cæsar—the prosaic, abstemious, cautious and bourgeois-minded Octavius. Roman capitalism was exhausted. The people were ready to sell themselves to anyone who could offer them a chance to eat. With Cleopatra's treasure for a start and a definite policy of providing employment through public spending, implemented by revenues from other sources, Octavius, carefully avoiding the radicalism of Cæsar, was to succeed where the more gifted Cæsar had failed.

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[1] *Ibid.*, page 261.
[2] *Ibid.* [3] *Ibid.*

THE ROMAN PERICLES

The victory of Octavius over Antony would undoubtedly have secured for him the chief magistracy of the republic for a time. But Octavius remained continually in office for some forty years. When he had been perpetuated in office for a certain length of time, a fatal psychology spread over the Roman people. A return to the ancient democratic tradition of rotation in office and annually elected chief magistrates of the state (the two Consuls) seemed illogical and fruitless. One-man government sunk its roots into the soil of tradition at this point and the old democracy became a discredited and outmoded creed.

How did Octavius protect his popularity from the normal vicissitudes of popular forgetfulness, ingratitude or caprice? The answer to this is that Octavius embarked on a policy of government spending which made the people dependent on him for their livelihood and also chained to him the interests of every social class in the state. The great modern historian, Guglielmo Ferrero, is precise on this point:

> To secure his hold of Rome and of the republic without any display of force or undue influence, he patiently worked to attach every social class to the new government, and these bonds were forged of golden chains, delicate and almost invisible, but none the less strong. Augustus laid down one of the essential principles for the future policy of the empire—that expenditure should be wide and free at Rome and directed to the profit of every class. From this moment and for centuries afterwards the public festivals at Rome were a governmental care, as serious as the equipment of the legions.[1]

Roman capitalism, its productive powers shattered by concentrated wealth, had for many years been incapable of furnishing employment to the people. With the return of peace, the business depression which had baffled the genius of Julius Cæsar returned in a more virulent form. With the return of peace, too, war declined as a means of livelihood for many Romans. Rome had overextended herself in the pursuit of empire, and the *pax Romana* of Octavius, which was hailed as one of the great achievements of his administration, was the result of his prudent realization that Rome could

[1] G. Ferrero, *Greatness and Decline of Rome*, Volume IV, page 163.

not afford more wars of conquest. The Roman people were now driven into a corner. But for a huge program of government spending, which was financed by Octavius chiefly out of his own personal fortune and those of his friends, the people would have starved and anarchy would have ensued. Only a thoroughgoing reform of Roman capitalism, which would have been directed to releasing the productive powers of private business in the domestic market, could have made it possible for the Roman citizen to earn his living without being dependent on the state. But Octavius carefully avoided attempting such a reform program, which would have necessarily involved a redistribution of wealth and exposed him to the daggers of the Roman plutocracy which had made away with the Gracchi, Catiline and Cæsar. So, Octavius and his friends paid the bills for supporting the people.[1]

After his defeat of Antony, Octavius became by far the richest man in the Roman state. From his grandfather he had inherited a large fortune which had been built on usury, since this relative was often referred to as the old usurer of Velletri. In the civil war against the murderers of Cæsar, he had greatly augmented this family bolus of wealth by confiscating the estates of his political enemies and buying them in at bargain prices. In Egypt, Octavius captured the treasure of Cleopatra, reputed to have been one of the greatest single fortunes in the then known world. The spending policy of Octavius commenced while he was still in Egypt and the gifts which he bestowed were intended to consolidate his popularity before he returned to Rome to accept the Consulship.

With a prodigal hand, he annulled all the state claims for back

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[1]There was no other practical way to raise funds. It was possible for Octavius to increase the taxes of wealthy Romans or to collect existing taxes with greater stringency. But Octavius "could not for a moment entertain the idea of imposing fresh taxation upon the metropolis unless he were willing to endanger the popularity he had acquired with such difficulty" (Ferrero: Volume IV, page 160) Fresh taxation of wealthy Romans would have brought Octavius into direct collision with Roman plutocracy and that was to be avoided at all costs since he had before him the tragedy of Cæsar. All during his administration, Octavius gave the rich a free hand and showered material favors upon them. When his power had become firmly established he did venture to impose a mild inheritance tax on the wealthy, but that was towards the end of his reign.

The resources of the East were exhausted and the Eastern tribute could not be increased. (Ferrero: Volume IV, page 160.) There was, of course, Parthia still unconquered but Octavius was afraid of this gamble. (Ferrero: Volume IV, page 157.) So he chose the painless and safe method of supporting the people out of his own purse and those of his friends.

taxes and then gave the treasury at Rome a large sum in compensation. Next, he paid the Roman municipalities for land seized from them in the civil war, distributing among them probably more than 300 million sesterces in hard cash. To the plebeians of the Roman municipality, that dangerous and disorderly rabble, more than 250,000 men, he distributed 400 sesterces apiece. To his soldiers and even to those of Antony, who totaled some 120,000 men, he gave 1000 sesterces apiece and, in addition, a plot of public land.

Octavius, the military hero, was now also Octavius the supreme Santa Claus. With this solid achievement of government spending to his credit, Octavius declared to the Roman people his fidelity to the theory of democracy. He announced that he "handed over the republic to the control of the Senate and the people of Rome." The popular assembly resumed its sovereign democratic powers. The old constitutional machinery was once more set in motion and Octavius was hailed as "the restorer of the commonwealth and the champion of freedom." For a number of years he held office as Consul, being elected annually. He brought together, under his banners, rich and poor alike. To the old aristocracy impoverished by the civil war and to the rich industrialists and commercial interests, he turned over many of the economic resources of the Roman state. The valuable provincial resources of Rome—vast lands, forests and mines—were allocated to a ruling class.[1]

For the poor—the crux of the situation—Octavius launched vast public works programs, made the army into an economic institution where free men could receive regular wages, and provided paid offices in an expanding bureaucracy to reward leaders of the people who supported him loyally. A large part of the cost of his construction programs came directly out of his own personal fortune. He built roads, rebuilt temples, added new public buildings. He urged his "friends and relatives to follow his example, that there might be

[1]As Triumvir during the days of the civil war following the assassination of Cæsar, Octavius had sanctioned the confiscation of the estates of many of the old aristocracy. To placate this class Octavius had a survey (Ferrero: Volume IV, page 166) made of the vast property owned by the Roman state in the provinces—land, forests and mines—and reallocated this wealth to the old aristocracy. Ferrero (Volume IV, page 236) says that the old aristocracy was restored to affluence chiefly through the help of Augustus "through whose intervention the most valuable lands and mines in the provinces were distributed to the leading members of the old aristocracy under the obligation of paying a small annual vectigal."

no lack of work and money for the middle and lower classes."[1] When it became the fashion for dying Romans to will their property to Octavius as a tribute to his greatness, he eagerly seized upon these testaments for further construction funds. Ultimately, by increasing taxes at Rome and on barbarian tribes and by reworking abandoned state gold mines in the provinces, he added other sources. The effect of his spending was to create and maintain a powerful political machine completely under his control.

THE METHOD OF DICTATORSHIP

From 30 B.C. to 27 B.C. Octavius ruled Rome as one of two annually elected Consuls. Then a new office was created for him equivalent to that of President of the Latin Republic, with supreme military command and wide but constitutional powers resembling "those of the Federal President in America during peace times." This office was called the *Principate* and its incumbent *Princeps.* From 27 B.C. to 8 B.C. the *Principate* gradually absorbed the important democratic powers that had belonged to the Senate, the Assembly of the People, and the principal magistracies.

The first term of Augustus,[2] as *Princeps,* was for ten years, during which time he was also elected Consul a number of times consecutively. Through the Consulship, Augustus controlled the political affairs of the city of Rome and the Italian peninsula. Through the *Principate* he wielded crushing military strength and was also the Governor of three important Roman provinces in which troops were stationed. As the *Principate* absorbed most of the powers of the Consulship, Augustus ceased to stand for Consul each year and this office, which had been so powerful under the Republic, was relegated to a subordinate position.

The autocratic authority ultimately vested securely in the *Principate* was the result of a growing process of investiture which lasted over a period of twenty to twenty-five years.

Augustus was voted the power to make war and peace, to levy troops and to conclude treaties.

He was voted the power to convene the Senate, to introduce busi-

[1] G. Ferrero, *Greatness and Decline of Rome,* Volume IV, page 164.

[2] At the time the Office of *Princeps* was created, the Senate conferred upon Octavius the complimentary cognomen of Augustus. In history Octavius is frequently called Augustus.

ness before it, and to nominate and commend candidates for election to the other offices of the state. The latter was a deadly one. Through its exercise, Augustus could effectively sterilize political opposition to himself in the Assembly of the People.

The Tribunician power was also incorporated into the *Principate*. This was a further formidable power. Through its exercise Augustus could veto any attempt at legislation by the Senate or other magistrates who had the power to introduce legislation in the Assembly of the People. He could also set aside the act of any magistrate.[1]

The powers of Censor were cautiously assumed by Augustus. Under the Republic the office of Censor had been of great political importance. Two Censors, elected annually, had been charged with the duty of registering citizens in Tribes and Centuries. The rolls of the Censors were used to determine a voter's right to vote in the *Comitia Tributa* or the *Comitia Centuriata* when laws were passed or magistrates elected. Unscrupulous or partisan-minded Censors could find good reasons for refusing to register bona-fide voters or they could close their eyes to the enrollment of bogus voters. The Censors were in a position to manufacture majorities in the popular assemblies and the fraudulent registration of voters had been frequent in the last century of the Republic.

The Censors also had charge of the disposition of much profitable business of the state to private individuals. They had charge of the letting of the contracts for collection of taxes to private syndicates and of the letting of contracts for the repair of public buildings to private contractors.

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[1] The incorporation of the Tribunician power in the *Principate* became devastating for two other reasons. Under the Republic no Tribune could veto the veto of a colleague. But the Tribunician power of the Principate was soon interpreted to mean the power of the *Princeps* to veto the veto of a Tribune should any of the annually elected Tribunes be rash enough to oppose his policies.

The person of a Tribune was sacrosanct. The sacredness of a Tribune's person could be violated by offensive or threatening language as well as by deeds of violence. The penalties for violating the person of a Tribune were severe. The sacrosanctity of the *Princeps,* derived from his Tribunician power, quickly became the basis for intimidating all political opposition. Any acts which could be interpreted as prejudicial to the welfare or dignity of the *Princeps* made the person committing them liable to the charge of *minuta maiestas*. Trivial charges were also taken into consideration, the ordinary rules of criminal procedure were suspended, and the penalties became extremely heavy. The Tribunician power of the *Principate* thus quickly developed into a mighty club with which political opposition could be effectively scared off.

The Censors, moreover, could remove from the voting rolls of the state the name of any individual whom they charged with immoral living. Even august Senators could be deposed from office by the Censors on the same charge—a charge that few Senators could successfully contest in the days of Augustus.

The assumption of Censorial powers by Augustus certainly furnished him with additional resources to control political opposition.

Augustus was voted *Pontifex Maximus* for life. He thus became the chief priest of Roman religion, an office which made it possible for him to exert more political power over the devout Roman voter.

The administration of the corn supply of Rome was put under the *Principate*. As administrator of the corn supply, Augustus held a life-and-death power over the poor of Rome, who depended upon periodic grants of corn from the state to live.

Augustus was voted the power to issue edicts. *Government by edict was a fatal step towards autocracy.* But the granting of this power caused scarcely a ripple of protest.

Then Augustus dealt the dying democracy a final blow. He sponsored a law attaching to all public offices a property qualification of four hundred thousand sesterces. With the passage of this law by a pliant legislature, the great bulk of the population were automatically disqualified from holding office. Thus a political career which had been open to the poorer citizens for a century was closed. Political posts which had formerly been open to Ventidius Bassus, the muleteer, were now "declared to be the privilege of the moneyed classes." The death warrant of democracy was signed.[1]

Augustus was elected six times to the office of *Princeps*. In his constant re-election to office, we see him exhibiting finesse and caution so as not to provoke the charge that he was establishing autocratic government.

His first term of *Princeps* was for ten years, from 27 to 18 B.C. As his first term drew to a close, his friends carefully laid the ground for his re-election. As a result of the civil war, a spiritual renaissance had spread over the Italian peninsula. The remnant middle class had become vociferous in their demands for moral reform. Here was an issue that could not be carried through to completion in a day; it offered a convenient argument for another term as *Princeps*. To carry out his great work of reform, Augustus was

[1] G. Ferrero, *Greatness and Decline of Rome,* Volume V, page 74.

re-elected *Princeps* for five years. But in order to allay completely any charge that he was attempting to be dictator, the shrewd Octavius insisted that the great military general, Agrippa, his close friend, should be associated with him in the *Principate*. Since Rome had long been accustomed to a two-headed executive (two *consuls* elected annually) this move of Augustus was a masterful stroke. He would be the supreme power, but in appearance the *Princeps* would seem to be nothing more than a continuation of one of the most ancient democratic traditions in the state.

In 13 B.C., as his second term of office drew to a close, another political interest was astutely manufactured. Augustus announced to the people plans to conquer Germania; and in the midst of preparing war against the Germans the convenient argument was made that he must again be re-elected *Princeps* in order to carry out this work. Again Agrippa became associated with him in the *Principate*.

By 8 B.C., when Augustus' third term was drawing to a close, the Roman people had become entirely docile to the idea of the *Princeps* and to the continual rule of Augustus. Agrippa had died, and in 8 B.C. Augustus was boldly presented to the people as *indispensable* to the continuance of peace and order in the Roman state. The people had become convinced that there could be no turning back to annual elections of the Chief Magistrate of the nation and had accepted the idea of one-man government. Nor was there any real desire on the part of the people to go back to the old democratic constitution. The public spending policies of Augustus were still affording them subsistence, and such a benefactor was worth a good deal more than theories about the structure of the state. So Augustus was without opposition again elected *Princeps* for a period of ten years. In 4 A.D. he was re-elected for ten years more, and in 13 A.D. he was re-elected for the *sixth time* to the same office.

The fateful influence of his long tenure of office had left an ineffaceable impress on Roman politics. The democracy was dead. The Senate, which had been one of the mainsprings of government under the Republic, was now "but a mere excrescence, devoid of life."[1] The Assembly of the People had been abandoned since elections had become an empty form and "no one came to record his vote."[2] Within a year after his sixth election to the *Princeps*, Au-

[1] G. Ferrero, *Greatness and Decline of Rome*, Volume V, page 329.
[2] *Ibid.*, page 330.

gustus died. Tiberius, whom he had designated as his successor, was then elected *Princeps,* not for a term of office, *but for life.* The stalk of the *Princeps,* the office represented to the people as necessary to meet a temporary emergency, had given forth its first poisonous bloom of hereditary and despotic dictatorship.

BY VOTE OF THE PEOPLE

Did the Roman people realize that Octavius was creating an autocratic state? Were they willing, or helpless to stop it? The truth seems to be that democratic resistance to Octavius was confined to a few disgruntled quarters. The majority of the people were apparently unopposed to his growing dictatorial power. The real tragedy of the Republic appears to be the people's profound disillusionment with democracy. Wearied by its failure to protect them from economic exploitation by rapacious rich men, and thoroughly cynical about the continual circus of bought and controlled elections which had never permanently bettered their lot, the people hailed enthusiastically a leader who had provided them with jobs at his own expense. Brutally exploited by business and government for upwards of two centuries, the masses saw in Octavius their only hope. The evidence is convincing that Octavius was deeply venerated by the people and that the people on more than one occasion petitioned him to become dictator. Indeed, in one instance the masses threatened to burn down the Roman Senate if it did not make Octavius a dictator at once. The gradual absorption of power by the *Principate* was done by vote of the people. All during the emerging dictatorship, the Roman Assembly continued to exercise its two basic functions—the election of magistrates which, of course, included the *Princeps,* and the ratification of all laws. The transference of power to the *Principate* was ratified step by step by the Roman Assembly. The conclusion is inescapable that, in the last analysis, it was the Roman people who destroyed Roman democracy.

On his *sixth* election as *Princeps* it was easy for Octavius to make his dictatorial power hereditary. He had selected his step-son, Tiberius, to be his successor, and the principle of dictatorship was then so obvious and accepted that even the tradition of re-electing the *Princeps* to office seemed inconsistent with the new political order. When the Roman Senate and Assembly voted to make Tiberius *Princeps* for *life,* they made the autocratic state completely secure.

A little while later and the office of *Princeps* had flowered into a line of emperors, who no longer felt the necessity of even going through the mumbo-jumbo of having a controlled people ratify their accession to power. The empty forms of democracy lingered for a while and then disappeared. After the reign of Tiberius, there are only two instances of legislation being approved by the Assembly. The other vital function of the Assembly—that of electing all magistrates—had been robbed of most of its importance even under Octavius by the power conferred on him to nominate and commend candidates. Under Tiberius, this function was still further restricted. Candidates for all magistracies except the Consulship were thereafter elected only by the Senate, and only the formal returns (*renuntiatio*) were made in the Assembly. Later on, the Assembly ceased to be informed even of this, and faded into oblivion. The Senate, too, was gradually stripped of its democratic powers. This august body, during the halcyon days of the Republic, had more than once been a staunch defender of democratic government. It had had large powers such as the control of the state treasury, the administration of Roman provinces, the right to raise armies and to negotiate peace, and the right to propose laws. One by one these powers were transferred to the *Princeps*. Under the successors of Octavius, the government of the Roman state became effected by imperial edicts. Senatorial decrees degenerated into mere rubber stamps for the will of the emperor, who appointed or directly created Senators.

The transition from democratic to monarchical Rome brought increasing control of business by the state. Within a comparatively short time a monarchical totalitarian state was fully developed. Paul Louis thus describes the vast labyrinth of state control:

> The administrative machinery with its innumerable wheels, the gigantic system which provided for the defense of the frontiers and the policing of the capitals, which regulated trade in precious metals, the distribution of oil, the conditions of carpentering, of earthenware manufacture and of house paintings, crumbled under the weight of its responsibilities. And not the least interesting of the studies which the epoch affords us is that of the causes which led Rome to the extraordinary economic system under which the Emperor controlled everything, an organization of associations in ascending order became the main institution, and the masses of the people, broken under tyrannical legislation and plunged into incurable misery, did not even dare to dream of emancipation.[1]

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[1]Paul Louis, *Ancient Rome at Work,* page 21.

The formative stages of the dictatorial government which was created in Rome were pleasant for the people. The vast spending programs of Octavius did improve for a time the economic condition of the people. Under a literal rain of jobs, the people surrendered their sovereignty. But when dictatorship had been fully established, the picture changed. The necessity no longer existed to court the people while they were being parted from their power. The people no longer had any power to surrender. Dictatorial government then changed its tune. It became thoroughly exploitative. The Roman people awoke one day to find that they no longer possessed civil rights and that their lives were at the mercy of the Emperor. The Roman Empire teemed with raw materials which under a soundly functioning capitalism could have developed much economic opportunity for the people. But the Empire created a new and more rapacious plutocracy. Wealth concentrated to a far greater extreme than it had under the Republic, and the potential productive powers of the resources of the Empire were stifled. The great fortunes of the Empire made those of the Republic seem small. At the beginning of the final century of the Republic, a fortune of 6,000,000 sesterces had been considered large. Towards the end of that century, Crassus had amassed property estimated to have been worth about 140,000,000 sesterces. Under the Republic, the fortune hunter had to buy Senators, corrupt the electorate, evade taxes, suborn the courts and magistrates to obtain grants of public property, valuable franchises, and immunity from legal penalties. Under the Empire, however, most of this unpleasant, dirty work was done away with. The people and the laws no longer mattered. The road to fortune lay through making a good impression on the Emperor. The rich men of the Empire were not like the red-blooded pirates of the days of the Republic. They were soft and degenerate. Seneca spent his life making love to great ladies of the court and writing philosophy, amassing a fortune said to be far larger than that of Crassus, chiefly through usury and imperial favors. Narcissus, the ex-slave, pleased the Emperor to the tune of some 320,000,000 sesterces,[1] acquiring his

[1]The size of these ancient fortunes in terms of the value of gold in the modern world can be estimated with a fair degree of accuracy. In terms of the American dollar before its devaluation under the New Deal, Professor Ferrero estimates the fortune of Crassus at around $7,000,000. Professor Davis estimates that of Narcissus at about $16,000,000.

If, however, one wishes to estimate what these ancient fortunes were worth

pelf by selling royal favors to the highest bidders.[1] The greatest private income of the Empire appeared at the beginning of the fifth century A.D. when plutocracy had reduced the people to appalling poverty and when death from famine was of common occurrence.

Under the Empire, capitalism also ceased to exist. All business became organized into monopolies[2] owned either by the Emperor

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in modern money values, the problem becomes complicated. The ancient world had a higher interest rate than the modern. Professor Davis estimates that it was at least 50 per cent higher. If that is the case, a dollar in sesterces in the ancient world would be worth a dollar and a half in the modern world. Also the purchasing power of ancient money was greater than that of modern money. How much greater it is difficult to say. In estimating what the fortune of Narcissus would be worth in the modern world, Professor Davis considers that ancient money had three times the buying power of modern money, though he admits that this is conjecture. It is possible that ancient money had six times the buying power of modern money. But assuming a 50 per cent higher interest rate in the ancient world, and that ancient money had from 3 to 6 times the buying power of modern money, the fortunes of Crassus, Seneca and Narcissus in terms of modern money values may be roughly estimated as follows:

Crassus: A fortune between $32,000,000 and $64,000,000.
Narcissus: A fortune between $72,000,000 and $144,000,000.

[1]W. S. Davis, *Influence of Wealth on Imperial Rome,* page 70.

[2]Two Roman Emperors are on record as having tried to curb monopoly. The Emperor Diocletian, perceiving clearly its ruinous consequences to the people, tried the remedy of government price fixing. He fixed the prices of important staples, but his success in enforcing the prices decreed by the government was apparently slight because monopoly remained firmly embedded in the Roman economic system down to the expiring moments of the Empire.

The Emperor Zeno, who came after Diocletian, attempted the only sound remedy. By imperial edict in 483 A.D. he forbade business men to fix prices. The anti-monopoly status of Emperor Zeno has a distinctly modern flavor to it. Said the edict of Zeno:

> We command that no one may presume to exercise a monopoly of any kind of clothing, or of fish or of any other things serving for food, or for any other use, whatever its nature may be, either of his own authority or under any rescript of an Emperor already procured or that may hereafter be procured, or under an imperial decree, or under a rescript signed by our Majesty.
>
> Nor may any persons combine or agree in *unlawful meetings* that different kinds of merchandise *may not be sold at a less price* than they have agreed upon among themselves.
>
> And if anyone shall presume to practice a monopoly, let his property be *forfeited and himself condemned to perpetual* exile.
>
> And in regard to the principals of other professions, if they shall venture in the future to fix a price upon their merchandise and to bind themselves by agreement not to sell at a lower price, let them be condemned to pay forty pounds of gold.
>
> (Testimony of Prof. A. Fetter, Princeton University, Verbatim Record of the Temporary National Economic Committee, Volume II, page 205.)

Zeno gave the business men of his day a bad scare. But the job of reviving

or his friends or acquired by purchase from the crown to replenish the imperial treasury. The possibility of business expansion which would have soundly relieved unemployment was blocked, and the people were firmly trapped in an economic system which forced upon them an economy of scarcity and dire want. All during the Empire, the rulers were forced to undertake public works programs and to distribute doles to avert the wholesale starvation of the people. But the building of roads, temples and public buildings did not create food, or clothes, or shelter for the people. The production devoted to such necessities became so small that the people were reduced to rags and black bread.

The building activities of the Emperors cast a fictitious glamour over the stricken economic system. The Republic gone, they clothed Rome in marble glory. Under the rays of the midday sun the Eternal City sparkled like an endless tiara of diamonds. When the shadows fell, the sepulchral whiteness of the stately public buildings, the solemn temples, the imperial mansions of the Palatine Hill, awed the tourist barbarian from the wild regions of Gaul more than had the impenetrable armor and invincible swords of the Roman legions of an earlier day. Out of sight, however, beyond the Palatine Hill and the Forum, lay the great slums of the city. In this area the same moon that lighted the luxurious gardens of the Palatine and the domes of magnificent public buildings, looked down into narrow streets between filthy tenements. In the shadows lurked the beggars and footpads of the underworld. Inside the rickety houses the people lay on straw, crawling with vermin, kept alive by wine sour as vinegar, black bread and a few vegetables. Towards the end of the Empire, economic distress reached virulent heights. Famine became an annual scourge. There was an ominous spread of infanticide. The towns were filled with the jobless clamoring for food. At the top of this crumbling edifice a few families, enormously wealthy, often debauched into sterility and loathsome disease, dwelt in great mansions and gorged themselves on costly delicacies.[1] But under the surface

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capitalistic enterprise in the Roman economy was too big a job for one man. Roman plutocracy was too powerfully entrenched to be disturbed by the occasional appearance of reform Emperors.

[1]The love of luxury which consumed the upper classes of the Empire was particularly reflected in endless and fabulous banquets. In the early Republic, the Romans had been a simple and virile people, extraordinarily temperate in their eating and drinking, shunning display in their dress and homes. The

of this glittering society rotted the descendants of that sturdy middle class which had defeated Hannibal and conquered the world.

For a few decades of jobs created by the public spending of Octavius, the Roman people had carelessly sold themselves into slavery. The hope that Octavius would improve their lot had turned into a terrible tragedy. Under autocracy the exploitation of the people had been insured and the nation, decked out in public works, had "bloomed—a garden and a grave."

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art of cooking had hardly been recognized until 186 B.C. when the army had returned from Asia Minor. Down to 100 B.C., wine had never been passed more than once, even at the largest banquets. Towards the end of the Republic the feasts of Lucullus had been gossiped about in the remote corners of the state. Lucullus was reported to have given banquets costing 200,000 sesterces. Gluttony and drunkenness had taken a firm hold on the wealthy classes. But it was under the Empire that gluttony became a thoroughly enervative art. The famous dinners of Lucullus subsided into a petty memory. The "average" grand dinner started with a preliminary spread of eighteen courses, followed by a regular dinner of ten more substantial dishes—sea nettles, peacocks and flamingoes, purple shellfish of two kinds, sow's udder, boar's heads, ducks, hams, hares, and sea hedgehogs. Marcus Gabius Apicius, with his guests, is reported to have eaten up some 100,000,000 sesterces in "refined gluttony." It is also said that when he had squandered all but 10,000,000 sesterces (some $2,000,000 in modern money values) he decided that he did not have enough left to make life worth living and so committed suicide. Lucius Verus is reported to have spent 6,000,000 sesterces on a single banquet (more than a million dollars in modern money values)—thus making our own Mrs. Vanderbilt, with her $100,000 parties in the gay nineties, seem frugal and a bit provincial by comparison. (W. S. Davis, *Influence of Wealth on Imperial Rome,* pages 175-179.)

CHAPTER VI

SEVEN HUNDRED YEARS AGO: *VENICE*

ON THE morning of September 11, 1298 A.D., a small galley was observed approaching the city of Venice. Even at a distance the rapid strokes of the rowers betokened desperate haste. Venice was at war with Genoa and the city's war fleet had sailed in search of the Genoese navy. The nerves of the people were on edge, since nothing had been heard from the fleet. The little vessel nearing the city was the bearer of tidings, but the news it brought plunged the city into grief and terror. The underrated Genoese navy had met and destroyed the great war craft of the Queen of the Adriatic, and at any moment the victorious Genoese might invade the city. Venice was soon in an uproar, but inside his palace, the Doge Piero Gradenigo, tall and evil-looking, smiled knowingly at his Privy Counsellors. The opportunity had come at last. The enemy was not the Genoese. It was Venetian democracy—that abominable form of government devised by the devil to permit poor and ignorant people to disturb the peace and security of the wealthy by radical legislation.

Doge Gradenigo was the political servant of a small group of enormously rich families. He had been put into office to do a job for his backers and that job was to deprive the Venetian people of their political power in the Constitution of the Republic. Back in 1204, when the Fifth Crusade came to an end, the Republic had acquired much valuable territory in the Near East, thanks to the efforts of the Venetian navy which was manned by the common people. When this rich war booty was handed over to a few families in the state, a great political stink arose, the odor of which had persisted. For nearly a century the rich had lived in fear that some radical legislature would annul the big steal of 1204. There had been many disturbing signs that the people were becoming increasingly hostile to the steady concentration of the wealth of the state in a few families. A dangerous radicalism was smoldering, requiring only some forceful leader to develop it into a blaze. Indeed, only

a few years before Doge Gradenigo had taken office the people had come near to establishing a government bank which would have put private bankers out of business. The measure to establish such a bank had been defeated only by a slender margin in the Great Council. The Great Council was the Venetian legislature, and it rested firmly on a foundation of male manhood suffrage. Each year on Michaelmas Day, September 29, elections were held to the Great Council. The state was divided into six districts and eighty members were elected from each district. Every free adult male inhabitant of the islands was entitled to vote in his district for the candidates of his choice.

For many years the commercial aristocracy had feared Venetian democracy and had schemed to destroy it. Under the cunning leadership of Gradenigo, the rich finally realized their ambition. Gradenigo had endeared himself to Venetian plutocracy when in 1286 he had been the prime instigator of a resolution in the Great Council, which if it had passed, would have made it impossible for anyone except men of wealth or their supporters to sit in the Council. At the time, however, that the resolution of Gradenigo was introduced, the Dogeship, which was the chief executive office of the Republic, was occupied by the Doge Giovanni Dandolo. Dandolo was an old man with a deep hatred in his heart of tyrannical government and he perceived clearly what the commercial aristocracy was trying to do. A little clique of very rich men in Venice wanted to obtain the control of Venetian politics so that they could keep in their hands the control of its commerce. Doge Dandolo opposed the resolution of Gradenigo in the Great Council, and the measure was defeated by a majority of thirty-four votes. Within two days Gradenigo had his resolution redrafted in different language, the content remaining the same, and had it reintroduced in the legislature. Again Dandolo swung against it the great prestige of his high office and again it was defeated. The conspirators then waited twelve days while they went to work on Council members in another effort to pass the resolution of Gradenigo. His proposal was again put into the legislative hopper but again the legislature voted it down because of the courageous objection of Doge Dandolo.[1]

In 1286, only Dandolo had stood against the success of those who were boldly trying to destroy Venetian democracy. When Dandolo

[1] William Carew Hazlitt, *The Venetian Republic,* Volume I, page 477.

died in a few years the commercial aristocracy immediately proposed Gradenigo for Doge. The Doge was elected for life by the Great Council. The choice of the Council, however, had to be ratified by the people. In its early history the Republic had been a direct democracy. The legislature was called the *Arrengo*. Every adult male inhabitant of the islands had been entitled to a seat in the *Arrengo* and this body elected the Doge. In 1172 representative democracy had been introduced with the creation of the Great Council, and the people ceased to elect the Doge directly. But it had been agreed that the old *Arrengo* should be called together to ratify or reject the nominee of the Great Council for Doge. It had been customary for many years for the Great Council to select one member to announce to the people the Council's choice in a standardized formula, "And this be your Doge, so it please you." Though Gradenigo had been chosen by the Council, to succeed the dead Dandolo, the announcement of his selection by the Council was received by the people "with a coldness and silence indicative of the strongest disapprobation." For the first time the deputy of the Council entrusted to make known to the people its choice for Doge withdrew immediately after repeating the traditional formula, and failed to ascertain the will of the people. The Great Council took the technical position that since no expression of dissent had reached the ears of its deputy Gradenigo was lawfully elected.

Gradenigo had thus begun his administration with a taint of fraud on his title to the office. He was furthermore embarrassed by Marino Bocconio, a man of large means and democratic sentiments, who denounced in public the unconstitutional procedure by which Gradenigo had secured the Dogeship. All this made Gradenigo move cautiously. Many times in Venetian history Doges who had attempted to suppress popular government had been deposed by popular revolt and had had their eyes put out as a punishment. Gradenigo was hated by the people and it was known that he had been the instigator of the defeated resolution of 1286. So this wily Italian politician bided his time for a while and cast about for opportunities to assist his designs. Suddenly Venice went to war with Genoa over disputed trade matters. One careful student of this period believes that Gradenigo deliberately provoked war with Genoa to provide himself with a smoke-screen behind which he could work more effectively for the destruction of Venetian democ-

racy.[1] At any rate Gradenigo immediately took advantage of the people's distraction with war to move boldly against Venetian democracy. On the sixth of March, 1296, while the war with Genoa was occupying public attention, the identical resolution that he had offered to the Great Council in 1286 was introduced for the fourth time. The party of wealth, however, received a surprise. The democratic side of the Council "coalesced with admirable firmness and unity against the proposal" and voted it down. The next move was inevitable and logical. Gradenigo determined to corrupt the next elections to the Great Council so as to obtain the majority which he needed. Between March and September 29, of 1296, all allusion to the rejected resolution was studiously avoided, but the political machine of Gradenigo raised a large campaign fund and went out in the market to buy votes. In the elections of 1296 the amount of money "expended in bribery and corruption was immeasurably above the average."[2]

The legislative body elected in September, 1296, to serve until September, 1297, was "a packed assembly." The way was now cleared for the destruction of Venetian democracy. Nevertheless, the commercial aristocrats continued to move cautiously. Not until February of 1297 did the party leaders deem their plan sufficiently ripe. Then they introduced a resolution which excluded anyone from eligibility to the Great Council in the future who had not previously sat in that body, or whose direct ancestors had not done so since its creation in 1172. This provision made the vast majority of the people ineligible for election to the Council. The wording of the resolution was particularly astute, and the fears of the people were temporarily allayed by a paragraph which declared that "it should remain in the power of any member of the legislature to propose from his seat a relapse to the old system." The proponents of the measure urged that it merely be given a trial, and that, at the end of a specified time, the government should take the sense of the national assembly concerning permanent adoption of the resolution. The proposal was passed by a large majority; and all that remained was to choose a favorable moment for its permanent adoption after the trial period. Fortune again smiled on the conspirators.

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[1] William Carew Hazlitt, whose work *The Venetian Republic* is one of the most authoritative in this field of history.

[2] *Op. cit.*, Volume I, page 478.

OH, FOR ONE HOUR OF OLD DANDOLO!

The knowing smile on the face of Gradenigo when he heard the news of the disaster to the Venetian navy on September 11, 1298, is now intelligible. What better day for taking "the sense of the Great Council whether the proposal of 1297 should be permanent."[1] The Great Council was in session and while the people were milling about the streets in terror of invasion, it quickly voted the resolution of 1297 as a permanent change in the Constitution. Venetian democracy was dead.

The political effect of closing membership to the Great Council is summed up by one historian:

> To be deprived of a seat in the Great Council was to be doomed for life to political silence in Venice. . . . The aristocracy had effected their object. They had robbed a free people of their rights, and converted them to their own sole use.[2]

Apparently the war was deliberately prolonged until this objective could be achieved. Concerning the peace with Genoa which was quickly made after the restriction of membership in the Great Council, a student of this fateful period wrote:

> Another motive which influenced the government in listening to the overtures of the Genoese representative was that the object which it had partly in view in protracting the war no longer existed. While, by the artful management of Gradenigo and his aristocratic advisors, the attention of the people at large was drawn away from domestic concerns to the progress of foreign affairs, a new political revolution was accomplished without much opposition, the magnitude and importance of which were tremendous.[3]

Those who engineered the tragic plot to close the Great Council moved to placate the people when the deed had been done, fearful of the inevitable reaction at the end of the war with Genoa. The government introduced a yearly and picturesque ceremony of having the Doge wash and kiss twelve poor fishermen from the lagoons. The Venetian people, however, refused to be placated. Within a few years they rose in revolt, but the commercial aristocracy was

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[1] *Ibid.,* Volume I, page 481.
[2] Horatio Brown, *Studies in Venetian History,* page 66.
[3] W. C. Hazlitt, *The Venetian Republic,* Volume I, page 477.

able to put them down with a firm hand. A few years after that, another revolt broke out, this time led by a patrician leader from the old landed aristocracy which had been steadily abased by the commercial aristocracy. These two revolts caused the government to create a far-flung police and spy system. This was the womb of the *Council of Ten.*

The Council of Ten had been appointed to examine the causes and to trace the ramifications of the attempted incitement of the people under the leadership of a patrician. The Council's tenure of office was at first limited to a few days, then extended to two months, then to five years. Finally on July 20, 1305 A.D., the Council of Ten was declared to be permanent and it became the master of Venice —a "dark, inscrutable body, more terrible than any personal despot, because impalpable, impervious to the daggers of assassins."[1]

VENETIAN DEMOCRACY

The islands which came to comprise the state of Venice were first inhabited by simple fishermen. As the barbarians pressed upon Rome and ravaged the mainland of the Italian peninsula in the second and fourth centuries A.D., refugees fled in increasing numbers to the lagoons of Venice. Simple fishermen and refugees were afflicted with no problem of concentrated wealth. The lagoon population of Venice had originally been under the control of the Roman state. In 466 A.D., the Venetian people revolted, declared their independence, and immediately established a free government. The executive of the new state was composed of tribunes, the people of each island electing one annually. At first there were ten tribunes. Later, with the inclusion of two more islands, the number reached twelve. The tribunes were the multiple executives of a federation of states. The new government was bottomed firmly on the sovereignty of the people. The legislature consisted of a popular assembly known first as the *Concione* and later as the *Arrengo.* The assembly reserved to itself the exclusive right to declare war or make peace, to enact all laws or to repeal any existing law. In the *Arrengo* "every adult male inhabitant of the islands" was entitled to vote. It was the counterpart of the Athenian *Ecclesia.*

For several hundred years the Venetian people experimented with

[1]Horatio Brown, *Studies in Venetian History,* page 77.

the form of the executive, but the *Arrengo* consistently held on to its important democratic powers. Tribune government proving a failure because of too many executives, after forty-six years the people tried a single executive. The *Arrengo* elected one tribune for life. After seventy-one years this type of executive was abolished because of its tendency to become tyrannical and monarchical.

Undiscouraged, the people returned to the system of twelve tribunes elected annually. Again, this type of executive produced confusion and incompetent administration. In 697, the people abruptly changed the form of the executive again. They returned to a single executive elected for life. His title was now changed from tribune to that of *Doge*. When after a period of trial the Dogeship tended towards tyranny, it was abolished by the people. Still undiscouraged the people decided to try a President elected annually by the *Arrengo*. A number of Presidents were elected, but when one threatened the liberties of the people and tried to make himself into a dictator, the people staged a revolt and put his eyes out "by applying a pan of live charcoal." The Dogeship for life was then revived. A number of Doges did not live out their office. They were accused of conspiring against the liberties of the people and deposed, also with the loss of their eyesight. Then the Dogeship developed a pronounced tendency to be hereditary in certain families. Doges began to associate their sons with them in their administration and to secure the election of their sons as their successors in the Dogeship. In 1026, the people put an end to this trend towards monarchy. The *Arrengo* passed a law which prohibited any Doge from associating a son or relative with him in his office and forbade any son of a Doge to succeed his father in the Dogeship.

After 1026, the Dogeship became stabilized. Doges came to realize that it was better to be constitutional in their office and keep their eyesight. Doges carefully consulted the popular will on all important matters and adjusted themselves to the democratic spirit of the constitution. Whenever a Doge proposed a law, "the great bell of St. Mark's was heard to peal in due course, summoning those together whose ratification was demanded by the Constitution."[1]

In 1172, the Constitution was again altered. The direct democracy embodied in the *Arrengo* was abolished and representative democracy substituted with the creation of the Great Council. We shall

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[1]Wm. Carew Hazlitt, *The Venetian Republic.*

see in a moment that representative democracy was sponsored and put across by the commercial aristocracy, which even at this early date was struggling to get rid of the power of the people in government. Of course the thing could not be done in a day. But they knew that representative democracy was a step in the direction they were steering. It would be easier to corrupt representatives of the people than the people themselves. When the crisis came it was easier for the commercial cabal to elect Gradenigo in the Great Council than to elect him in the old *Arrengo.*

VENETIAN CAPITALISM

A vigorous capitalistic economy accompanied the rise of free government in Venice. Flourishing markets developed on the Campo di San Pieto at Castello, San Marco and San Polo. The greatest of all Venetian markets was the famous Rialto. In these markets were displayed not only the wonders of Venetian craftsmanship, but food and fruit of every kind. The prices of products were governed by supply and demand, and quoted in terms of Venetian money. The Venetians had banks and depositors. In the year 1361 the whole banking structure was drastically reformed and in this reform one observes the existence of a banking practice that was destined to become very modern. That year, the commonwealth was confronted with a series of bank failures. Popular indignation forced a sweeping investigation. It was discovered that private banking in Venice had developed along a particular line which encouraged bankers to be unfaithful to their trust as disinterested investors of other people's money. Merchants were found to be also engaged extensively in the banking business with the result that depositors' funds had been shamelessly used in the business ventures of these merchants. In twentieth-century America, banks were also to fail in droves because they fell into the hands of business men who used depositors' resources for their private speculations.

For a time, public opinion almost succeeded in establishing a state bank to supersede private banking, but the spirit of private enterprise was so strong that the National Assembly refused finally to sanction the destruction of private banking. It passed a law, however, *prohibiting the fusing of any banking and merchant business.*

Venetian capitalism went through two distinct periods of wealth concentration.

In the first period there was a concentration of land ownership. In the early days of the Republic, the soil had been parcelled out among a fairly large number of small proprietors. Then these small holdings were almost entirely "absorbed by a few families." The rise of a landed oligarchy immediately affected the operation of democratic government. The Dogeship became hereditary in certain powerful families and it is at this point that the people rose up and established the great reform of 1026 which forbade any son of a Doge to succeed him in office.

The second concentration of wealth arose out of the development of Venice as a great industrial and commercial nation in the Middle Ages. Much of this development was due to the Crusades. The land voyage to the Holy Land was tedious and dangerous. The Crusaders preferred to cross the Alps and travel by sea from Venice or Genoa. Venice became the main point of embarkation and her merchants made a lot of money by exploiting the religious fervor of the Crusaders. They charged exorbitantly for transportation and for military supplies. In addition, Venetian industrialists and traders secured from the Crusaders valuable territory and trading concessions as these Knights of God conquered rulers in the East. The Crusades educated the people of the West to the products of the East. They returned with a liking for spinach and peaches and the luxurious robes of cotton and silk which were worn by the infidels. After the Crusades came to an end, Venice remained one of the important distributing centers for the Oriental goods for which the West had acquired such a taste. The commercial class in Venice tended to draw together for the purpose of controlling Venetian politics in order that they might keep in a few hands the rich profits of Venetian industry and trade. The most effective tool of the fortune-builder in Venice was the exploitation of government. The power of the state, backed by the arms of the common people, was systematically used to procure for a few families royal trading rights and privileges in foreign markets. The small business man could not hope to cut in on these spoils, and the common people resented the cunning scheme by which they paid with their lives for the aggrandizement of a few families. The grumbling of the small man in Venice perpetually alarmed the commercial aristocracy. The people were still politically sovereign in the state and a reform administration might play havoc with their purses. So for a hun-

dred years the rich worked persistently to take out of the hands of the people their political power.

In 1172, the Doge Cassiolo was assassinated. Under cover of the wave of indignation which swept over the state, the leaders of the commercial aristocracy obtained leave from the *Arrengo* to explore the possibilities for improving the structure of government. A committee was appointed and its first step was to abolish the "pernicious system of direct suffrage." The commercial aristocracy had for some time wanted to prevent the people from directly electing the Doge or voting upon important public matters. To this class the *Arrengo* "which embraced every adult male inhabitant of the islands without distinction of rank, merit or capacity" was intolerable. In principle it gave an impecunious fisherman as much to say about the laws of the land as a millionaire trader. So the committee devised the representative democratic government which was described a few pages back. The plotters, however, had to move cautiously. The mandate of the *Arrengo* had been merely to explore the possibilities for improving the government. The committee, however, proceeded to act as though the mandate had given them power to institute a new form of government. The first Great Council was elected and it then promptly elected one of the richest traders in the nation, Sebastiano Ziani, to be Doge. The people were appeased by two devices. It was announced that the old *Arrengo* would be continued to ratify the choice of the National Assembly. The judicious phrase, "And this be your doge, so it please you," was coined and employed. The new Doge distributed a large sum of money among the people assembled in the old *Arrengo*, and the people responded with shouts of approval, not knowing whither they were drifting. The people were to discover that it was easier to corrupt representatives of the people than to corrupt the people themselves. Centuries later, the people of the United States were to change the election of United States Senators because it had been found easier to corrupt a state legislature than the people of a state.

WHY VENICE DID NOT HAVE AN OCTAVIUS

Venetian democracy was destroyed without the consent of the people, and the political leader who engineered its doom, Gradenigo,

unlike the Roman Octavius, was hated by the people. But, though Venetian democracy did not perish by vote of the people, the *same economic cause* which took the life of Roman democracy also dispatched free government in Venice. Concentrated wealth supplied both the means and the incentive for its destruction. The reason why Venice had a Gradenigo instead of an Octavius is to be found in the peculiar behavior of Venetian capitalism. Wealth concentrated to an extreme degree in the economic system. On the eve of the destruction of Venetian democracy, there were more than a thousand industrialists and merchants in the state with incomes varying from two hundred thousand to five hundred thousand lire —huge fortunes for that day. But the concentration of wealth did not break down the economic system in unemployment and an impoverished populace eager to trade popular sovereignty for jobs and food. Because of the accidental development of Oriental trade in which the geographical position of Venice made her the middle man and the fact that Venetian craftsmen developed a marked superiority of skill in international markets,[1] the demand for Venetian products and services was so great that, in spite of the concentration of wealth, the economic system furnished good employment to the people. Small agriculturalists who lost their lands, small traders or artisans who lost their small establishments to big business, found employment with great merchants and industrialists. The demand of Venetian plutocracy for the labor of the people was so ample that the people were able to keep clear of the dire poverty which made the Roman people indifferent to the fate of free government. Sustained by an enormous outside demand for its products

[1] The whole medieval church patronized Venetian organs, Venetian church bells, Venetian jewelry and Venetian crosses. The numerous courts of the counts and dukes in Europe and the potentates of the East had an insatiable demand for Venice's famous mirrors of stainless glass, its exquisite pottery, its craftsmanship in superb tunics and brightly colored clothes, its famed cloth of gold and silver, and crimson damask; its fine embroidery work, its silk weaving, its unique leather products, its ducal rings and crowns, golden chains, jeweled cloaks, bronze doors and rare ivory work. For many years Venice was the center of an armor industry extensively patronized by the rest of the world. Her swords were of the finest steel and greatly sought by the warrior fraternity. In addition to such luxury goods, Venice enjoyed a monopoly of salt. Europe and the East bought this necessary ingredient from Venice, and the salt industry produced a remarkable meat industry. Venetians discovered that salt could be used to preserve meat and to ship it long distances; and this became a lucrative product.

In this vast commerce there was plenty of work for everybody, though the chief fruits of it went to a small number of families.

and services, the economic system kept the people economically afloat in spite of the growing pains of plutocracy. And because the economic condition of the people was accidentally so much better under free government in Venice, the people were not indifferent to its abandonment, and, in fact, risked their lives in an effort to save it. And because the Venetian people were not as jobless as the Roman people they were more difficult to buy. It took the commercial aristocracy a long time before it was finally able to drag the representatives of the people down in corruption, and that corruption was then repudiated by the masses when they discovered who had betrayed them.

TOTALITARIAN VENICE

Under the Council of Ten, Venice developed a totalitarian economic system. Government asserted a drastic control over all business activity for the benefit of a few families. Private monopoly, which had been making steady progress before the death of democratic government, enveloped all business under despotic government. Under monopoly, Venetian craftsmanship languished or deteriorated while monopoly prices stimulated foreign competitors. Under a more flexible economic system the Venetian craftsman had out-competed the world on quality and price. When monopoly became systematized "all advance was stifled,"[1] and this was an important factor in causing Venice to lose her favorable position in international markets. When Venice lost that position, concentrated wealth immediately reduced the people to extreme poverty. Venice became a city of great mansions, great slums and great prisons. Had the commercial decline of Venice come in the days when the people had political power, her transition to despotism would have been produced by some Venetian Octavius who would have paid the bills to furnish the people jobs on public works while the people were being parted from their power.

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[1]Just as the aristocratic government of the state tended to restrict itself to a few privileged families, so, as though by the very compulsion to imitate, the craft guilds which in the Middle Ages gave such an admirable impulse to labor, gradually concentrated themselves in close associations, hampered by proscriptions and limitations. Monopoly, especially after the fifteenth century, became systematized and stifled all advance. (Pompeo Molmenti, *History of Venice,* Volume I, page 185.)

CHAPTER VII

FIVE HUNDRED YEARS AGO: *FLORENCE*

IN THE eleventh century, Florence was a small village of northern Italy. It was at that time a lethargic community of peasants and humble tradesfolk, but the village lay in the path of progress. It lay on the great Roman highroad which connected Rome, the center of Christianity, with the rest of Europe, and when the barbarians had become Christianized and some degree of order had been restored in Europe, the quiet village of Florence began to grow industrially and commercially. Her bankers dominated the loan business of Europe, and kings courted credit in terms of Florentine gold *florins,* the stablest monetary unit in international trade and the sterling exchange of the medieval world. Her manufacturers of wool and silk and furs operated a far-flung branch-establishment empire, and in every important city of Europe the Florentine banker or merchant was a symbol of power beside which the escutcheons of royalty shone in a subdued light. By the end of the thirteenth century, there was not a country in Europe where Florentines were not the chief controllers of trade. All Europe looked on in amazement at "the enterprise, the power and the wealth of the fabulous city on the Arno."

In the eleventh century, the village of Florence had been ruled by the Duchess Matilda, assisted by a council of great nobles. Within a few centuries, a government embodying a considerable degree of political liberty had been established. Indeed, the citizen of Florence came to pride himself on having a government which was "the most Republican of all Republics." For a number of centuries the people of Florence resisted successfully the rise of a *governo di un solo,* the Florentine phrase for dictator or tyrant. But in the end, free government in Florence perished in exactly the same way it did in ancient Rome. It perished by vote of the people, and the man who wrought the downfall of the most Republican of all Republics, Cosmo di Medici, marched to victory by building an invincible

political machine through government spending on public relief. With only a brief interlude, Cosmo founded a dictatorship which lasted for some three hundred years.

EVOLUTION OF POLITICAL LIBERTY IN FLORENCE

When the people of Venice began their political life, wealth was highly diffused in the state. Because of this fact a vigorous democratic government arose naturally and spontaneously. When the people of Florence, however, began their political life, wealth was highly concentrated in the political unit which included the village of Florence. Under the Duchess Matilda, agriculture was the dominant industry of her realm and a feudal nobility owned most of the land. We find, therefore, an extreme concentration of wealth correlated with an extreme concentration of political power. The rise of political liberty in Florence is caused by the industrialization of the city. Industrialization develops a burgher class which in time acquires sufficient wealth and economic power to challenge the political supremacy of the feudal nobility. This nobility lived in castles in the *contado,* or county of Florence, and insisted on the feudal right to prey upon the growing commerce of the city. They taxed this commerce as it passed through their domains or appropriated the goods of merchants by outright brigandage. The burgher class finally broke the political power of the old landed nobility and even excluded them from participation in the government.

The industrialization of Florence was carried on in an economic system which insured at all times a concentration of wealth in the state, and concentrated wealth operated persistently to hold back the emergence of a full-fledged democratic government in Florence. But in spite of concentrated wealth, the enormous prosperity of Florentine trade caused economic power to seep downward in the state and to produce a substantial amount of political liberty. This dispersion of economic power did not proceed to a point where the people were strong enough to establish and maintain a government completely democratic. But it did proceed far enough to give to the people considerable political power, and almost far enough to make the government thoroughly democratic.

After the destruction of the political power of the feudal nobility, rich burghers, incorporated in seven exclusive guilds—each guild

representing an industry—controlled the government for a time. With the expansion of Florentine trade smaller guilds sprang up and prospered, and soon fourteen minor guilds clamored for a share in the government. Then began a fearful struggle between the *popolani grassi*—the big folk, the "fat men," the rulers of the seven larger guilds—and the *popolo minuto*—the little folk, the "thin men," the small business men of the fourteen minor guilds. For a time, too, the small-business-men class obtained control of the government and dominated all offices in the state. At this point—the fourteenth century—Florence heard the rumblings of a political revolution, thoroughly democratic in its purposes.

The people had won the important democratic power to ratify or reject any change in the Florentine Constitution. When such a change was proposed, the government had to summon a *Parlamento* or "gathering of the whole male resident population of Florence." Every adult freeman born of Florentine parents was entitled to vote on this occasion. A *Parlamento* was a recognition that "power in the last instance issued from the people and any fundamental change in the Constitution required the permission of the people." The ringing of the great bell of the *Palazzo* was the signal for a *Parlamento*. When the people had gathered, the question was put by the *Gonfalonier,* the Chief Executive of the state:

> Do you consent that a Balia (a commission of reform) be appointed which shall have all the power of the Florentine people in its delegates?

If the people voted "Yes," a reform commission was established.

When, therefore, the Constitution was amended, Florence was considerably democratic. But in the everyday functioning of government it was not. Only business proprietors were eligible to hold office in the state. Precisely at the point when Florence was at the height of her trade supremacy and when the prosperity of the people was at its peak, a desperate effort was made by the people to abolish this class government. This effort of the people, known as the Ciompi Uprising (1376), was a bloody affair. The workingmen seized control of the government by force and for a brief period the workers secured the right to hold office. Trollope, the historian, notes that this formidable effort of the people occurs at a time when the people were fully employed and were enjoying rising standards of living:

There was no want of bread or any form of *circenses* that was causing the Florentine people to give so much trouble to the classes above them in the social scale. Everybody was becoming richer. There was no lack of work or wages. Nor does there seem to have been any tendency among the working classes to complain or feel discontented that those above them were richer than they. There is no symptom of the presence in the popular mind of any communistic or socialistic doctrine or sentiment. What the lower classes worked to share with those of the upper classes was not their wealth but their political power.[1]

The Ciompi Uprising (the word Ciompi means the lowest classes in the state) came at a time when the economic strength of the people was at its height. The economic strength of the people was not sufficient, however, to make permanent the results of the revolution. The great wealth of a few Florentines was able to finance a counter-revolution. This revolution returned the people to their old status and even the small business men were deprived of their right to participate in the government. The major guilds secured complete control of the government. Shortly after this triumph of plutocracy, the commercial supremacy of Florence begins to decline and economic conditions set the stage for dictatorship.

THE ECONOMIC SYSTEM OF FLORENCE

It was the structure of the Florentine economic system which prevented enough economic power from concentrating in the people to make the government thoroughly democratic. Had the enormous prosperity of the commerce and industry of Florence been achieved under a genuine capitalistic system—that is, under competitive conditions—it would have been impossible to prevent the diffusion of wealth in the Florentine state sufficiently to establish popular government on a firm basis. Competition in business is one of the most effective ways to bring about a broad diffusion of wealth in a nation. We shall see that it was the principal factor causing the concentrated wealth and political power of monarchies in the modern world to disintegrate and ultimately to generate enough economic power among the masses to make democracy triumphant.

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[1]Thomas Adolphus Trollope, *A History of the Commonwealth of Florence from the Earliest Independence of the Commune to the Fall of the Republic*, Volume, II, page 235.

Though the Florentine economy had many traits of a capitalistic system, it was not one. Business in general was privately owned and operated. Florence had great industries in which the division of labor was carried out to a minute degree. She had a model monetary system which expressed itself in piccoli, soldi, denari and gold florins. The great public markets of the city—the Mercato Vecchio and the Mercato Nuovo—were loaded down with an amazing variety of products ranging from fresh vegetables to exquisite works of art all sold at prices reckoned in terms of money. But freedom of trade—that indispensable element of capitalism—was wanting. From earliest times, emerging industries had been organized into guilds. A guild was an association of the owners of the various factories or establishments in an industry. Each guild was a complete monopoly. The workingman had no voice in the councils of the guilds, but each guild exercised despotic economic power over the industry which it represented. It determined the wages of labor, the prices of products, and punished any member who cut below the established price. It controlled rigidly the supply of business men in its industry, since no one could be an employer of labor or a business proprietor in the city who was not licensed by a guild. By controlling wages, prices and the supply of business men, the guild masters were able to control the division of the prosperity created by Florence's dominant position in the medieval trade world. Naturally they reserved a large and unfair proportion of this prosperity for themselves and insured the existence of concentrated wealth. Through this source of economic power the ruling class was able to hold back the rise of a people's government and in the end to crush all efforts of the people to achieve this end. While unjustly enriching themselves the guild rulers kept the wages of workers down to a point where though the working class was employed and could live, their economic condition was never sufficiently strong to sustain any attack on the control of government by the employing class. In theory the guilds benevolently professed to assure every worker a living wage. In practice, the wage rates prevented starvation but kept the working class in a weak economic state. "The average daily wage of an adult worker," says Staley in his work, *The Guilds of Florence,* "was about 26 cents a day. In times of depression, prices naturally declined and a day's wage amounted to no more than 30 piccoli or about 16 cents." The regularly employed laborer worked about

253 days in a year, since work was prohibited on the 52 Sundays and on about 60 holidays or Saints' days. With 253 working days to the year, the average workingman in Florence earned the large annual income of about $65 in good times; in hard times this was reduced to around $48. Making all allowances for the difference in purchasing power between modern and medieval money, it is clear that the average breadwinner in Florence was still only just above a bare subsistence. The private monopoly economic system of Florence thus permitted the diffusion of economic power to a limited degree but never sufficient to make it possible for the people to throw off the yoke of concentrated wealth entirely, and establish a democratic government as vigorous as that which arose in Athens and Rome.

THE CONSTITUTION OF FLORENCE

The political liberty which did emerge in Florence was stubbornly defended both by the people and by the small group of business men who enjoyed the right to hold office in the state. For a number of centuries the Florentine people played a spectacular, extra-constitutional role in warding off the rise of dictators. On more than one occasion the people, distrusting the ambitions of a political leader, rose up and "shook to the ground a battlemented tower or armed fortress before its master would work his will on the state." The leadership for these revolts was supplied from the small class of persons who were eligible to participate in the running of the government. Though Florence came to have a population of about 90,000, never more than 4000 or 5000 persons were qualified by the Constitution to hold office. The citizens, however, who did possess the right to govern were a highly selected group of intelligent men. They included the shrewdest merchants of medieval Europe, learned lawyers and great artists. Within this small circle there was an intense love of political liberty and an ever-present dread of despotism. It was this class which worked diligently to devise a constitution which would be foolproof against dictators, and the ingenuity of their efforts testified to their profound hatred of political despotism. Fearing a strong executive, they divided the office into thirty-six members distributed among three separate agencies. One was called the *Signory* and was the chief executive body, since it alone possessed the power to introduce legislation in the legislature. The

Signory consisted of a presiding officer, called the *Gonfalonier,* and eight associates, called *Priors.* The *Signory* was assisted by two Colleges—twelve *Buon' Uomini* (good men), who were schooled in constitutional law, and sixteen Captains of the Municipal Militia. The *Signory* and the two Colleges were called the *Three Greater Magistracies.* Though the *Signory* alone could initiate legislation, no legislative proposal of the *Signory* could be presented to the legislature unless it had been approved by two-thirds vote in each of the Colleges.

Fearing a legislature controlled by the Executive, the Florence constitutionalists put the legislative power in three separate houses called the Council of the Hundred, the Council of the People, and the Council of the Commune. A legislative proposal approved by two-thirds of the *Signory* and the Colleges was brought on three successive days before each house of the legislature. Each Council was given one day to approve or reject the proposed law. If the three Councils approved the measure by a majority vote, it became a law. As a further safeguard against dictatorship all members of the *Signory,* the two colleges and the three Councils of the Legislature were rotated in office *every two months.* The belief was firmly held that if members of the government remained in office only a short time, no one would have time to make himself a dictator.

Fearing that some military hero might seduce the state into tyranny, the control of the Florentine Army was vested in a foreigner, known as the *Podesta,* who was chosen annually. Fearing even to trust the police force of the city to a Florentine, another foreigner, called the Captain of the People, was selected every four months. Fearing that criminal justice might be obstructed or used to recruit political support if its enforcement was confined to Florentines, another foreigner was selected at stated periods to be the Executor of Justice. Finally, fearing the corruption of elections by bribery, a system of selection by lot was instituted for all important offices in the state. The names of all citizens eligible for office were put into *borse* or purses. Citizens so eligible were business proprietors who were not in arrears in their taxes, the delinquent taxpayer being automatically disqualified. Party leaders often recruited followers by paying up their tax arrears. Every two months appropriate officers drew, from different *borse,* names to fill all positions in the *Signory,* the Colleges and the Councils. The *borse* were

refilled when they became exhausted. The drawing for office was supervised by religious friars. The historian Trollope vividly depicted the virtues of selection by lot:

> Choice by lottery, above all! No people under heaven ever had so potent a faith in the virtue of haphazard. *"Borse,"* purses, bags, in which the names of all citizens should be put and drawn by chance for all offices of trust or power. That was the grand plan! For how else can we prevent our rulers from getting to be greater than we? If we appoint the most able, his very ability will help him to put the yoke on our necks. If we keep the choice of him arbitrarily in our own hands, there will be canvassing and bribing, and how can we trust each other in the matter? *That,* at all events, we will not do! Men deceive! We will trust no man! Better trust chance! So we will have a ruler by right divine of haphazard. Then, at all events, I am as likely to be king as you. And in order that every dog may have his day, and we may be all kings in our turn, we will reduce the term of office to two months. There surely can be no danger of a man making himself great in that time. But in order to make that danger less, and to insure that our haphazard ruler does his duty and nothing but his duty, we will have other haphazard chosen powers to watch him and make him do his work.[1]

THE MEDICI FAMILY

In Florentine history Cosmo di Medici is often referred to as a second Octavius. The basic factor in the dictatorship of Octavius was a broken-down economic system which necessitated government spending on a large scale to furnish employment to the people. Cosmo appears on the scene in Florence at a time when the state is harassed by the emergence of a similar unemployment problem. The Ciompi Uprising occurred in 1376 when Florence was at the height of her commercial power. But by the end of the century her commercial greatness had begun to wane. Her banking business was the first to go. This was a vast business and furnished "much employment to many Florentines." The exorbitant usury charged by the Florentine bankers finally provoked bitter international ill will. The King of England refused to pay a tremendous loan. The King of Sicily refused to honor his obligations, while the King of France "drove all Florentine usurers out of his realm." At the

[1] T. A. Trollope, *A History of the Commonwealth of Florence,* Volume II, page 179.

time of the Ciompi affair, Florence had one hundred twenty banking firms with branch offices everywhere in Europe. By 1422, only seventy-two banking houses, mostly small ones, were left. By 1474, the number had dropped to thirty-two.

The great cloth industries of Florence were also declining, though less rapidly than the banking business. The wool industry alone at its peak had furnished steady employment to thirty thousand people. Oppressive prices exacted by the textile monopolies eventually provoked revolt throughout Europe. Many nations exacted laws protecting domestic textile industries and excluding Florentine cloth. By the end of the fifteenth century, the cloth industries were afflicted with chronic and widespread unemployment.

Cosmo thus appears at a time when the always low wages of the working class had been further reduced by the decline in Florentine trade. The state had been forced to resort to large building programs to keep many people from starving. The situation was ripe for some pied piper to lead the people into tyranny over a bridge of government spending.

Like Octavius, Cosmo inherited a great fortune. His father Giovanni di Medici had been one of the richest bankers in the commonwealth, and for a number of centuries the Medici bankers had been steadily growing richer. The great bankers of Florence bled foreigners, their countrymen and their government alike with usurious loans. They also increased their wealth by the profitable practice of farming the taxes for the state. For this relatively simple service they exacted a tremendous fee. The Medici family had on several occasions farmed the taxes for the commonwealth. In the hands of Cosmo, the large fortune of Giovanni was multiplied into perhaps the greatest fortune in the whole of medieval Europe. He performed this accretive miracle by exploiting government in the same way that Octavius multiplied his patrimony into the greatest fortune of the ancient world. Octavius appropriated the treasure of Cleopatra, but Cosmo used the "public money and the credit of the Florentine State for carrying on his own private commercial speculations." This fact, says the historian Trollope:

throws a very explanatory light on the apparently almost incredible amounts of Medicean wealth. Given a condition of things in which money was worth at least ten per cent and the power of utilizing public funds and credit of one of the richest commercial states in Europe, and by

fancy more than a score or two of heads might be found within the sound of Bow Bells perfectly capable of realizing with such means the same results as Cosmo himself realized.[1]

It was the great personal fortune of Cosmo which enabled him, like Octavius, to finance public relief out of his own pocket.

Like Octavius, too, Cosmo inherited a family name which had been identified with the people's cause. One Medici had been conspicuous in the Revolution of 1343 when the fourteen minor guilds had achieved control of the government. Another, Salvestro di Medici, had been one of the prime instigators of the Ciompi Uprising. As *Gonfalonier* he had made political war on the Major Guilds, demanding publicly the abolition of a secret and terrible tribunal which had been perverted from its original purpose of locating and exiling enemies of the state into an instrument of party warfare. This tribunal had long been controlled by the Major Guilds and had been used to exile small business men who agitated against their power. The people rallied behind Salvestro's demand and the long smouldering discontent of the people suddenly flamed into the Ciompi Uprising. After the counter-revolution of the Major Guilds, Salvestro had been too powerful to be punished. But for thirty years, the Albizzi faction which had put across the counter-revolution prevented any Medici from holding office in the state.

In 1421 the name Medici had become enormously popular with the people. As *Gonfalonier,* Giovanni di Medici, father of Cosmo, had reformed the tax system. For many years the tax system had fallen heaviest on the poor, since it was based entirely on taxes levied on necessities. Giovanni established an income tax and under its operation the rich men of Florence were compelled to assume a fair share of the tax burden. The spectacle of Giovanni, the richest banker, imposing an income tax on the city's rich made the name Medici revered by the people.

Unlike Octavius, Cosmo di Medici did not build his tyranny around himself as the chief magistrate of the state. He rarely held office. His name was rarely signed to documents. He maintained no court or guard and, with calculating modesty, he "pretended to regard himself as the equal of his countrymen." His rule was that of the Chief Sachem of a Florentine Tammany Hall. Like Octavius,

[1] T. A. Trollope, *A History of the Commonwealth of Florence.*

he exhibited virtues unassociated with a tyrant. Octavius, dressing simply, eating frugally, democratic in his contacts with people, a believer in sumptuary laws and purity of home life, had appeared as the reincarnation of the spirit of a sturdier Rome. Cosmo, too, tall, grave and serious, extremely simple in his personal habits, disliking gambling and amusements, constantly preaching about the virtues of good home life, appeared to the Florentines of the fifteenth century as a model citizen. Cosmo refused to make a will because he declared that "he would rather rely on the love of his children for each other." To make a show of democratic sentiments, he refused to allow his daughter to marry into a noble family in Rome and selected for her husband a simple citizen of Florence.

DICTATORSHIP

Giovanni's income tax system struck fear into the hearts of the reactionary rich men of the seven Major Guilds. For more than forty years after the Ciompi Uprising, the Albizzi faction had kept the state safe for rich men. Yet Giovanni had caught them off their guard and achieved a smashing popular victory. On the death of his father, Cosmo was elected the leader of the resurrected liberal party. The leaders of the Albizzi faction decided that something had to be done about the Medici in general and Cosmo in particular; otherwise the vast wealth of the rulers of the seven Major Guilds would be exposed to other disastrous reforms.

At first, it was decided to kill Cosmo. Of course, it would be done legally. The *Signory,* controlled by the Albizzi clique, would accuse Cosmo of being an enemy of the state and sentence him to death. This decision was abandoned because of the advice of Niccolo da Uzzano, the political Nestor of the Major Guilds. This Niccolo had a real grievance against the Medici. Before the income tax of Giovanni he had never paid in taxes more than sixteen florins a year. In the first year of the income tax he was compelled to pay two hundred fifty florins. But Niccolo was a shrewd politician. He looked at Florence realistically. Under the impact of hard times the moral foundations of government were slipping. Everybody and every principle was for sale in Florence. Concentrated wealth had consumed honest government. For many years the system of selection by lot for public office had been thoroughly corrupt. Ways had

been found to tamper with the *borse*. Why, there was the blind beggar Benedetto, who had made himself rich by predicting what names would come out of the *borse* when a new *Signory* was drawn. Niccolo discouraged the plan to kill Cosmo. He pointed out that the enormous wealth of the Medici and "the venality of the magistrates would supply a means of safety to him"; that Florence "was infested with citizens who are ready to sell the Republic" and that fortune was "favorable to them in that they have found a purchaser."[1] So instead of attempting to kill Cosmo, the Albizzi politicians exiled him to Venice.

But when Cosmo was arrested by order of the *Signory,* a step preliminary to sentencing him to exile, the poor of the city beat their breasts and offered up prayers for his safety in the streets. He left the city in the role of a martyr. During his period of exile, he launched building programs to beautify Florence and to give employment to the people; paid up the tax arrears of many citizens; and lent money to many influential men. Many years later when Cosmo died and his will was opened, it was found that practically every important citizen of the commonwealth was in debt to him. Probably with Cosmo in mind, Dr. Samuel Johnson said:

> No sir, the way to make sure of power and influence is by lending money confidentially to your neighbors at a small interest or perhaps at no interest at all and having their bonds in your possession.[2]

The government of Florence could not long withstand the seduction of Cosmo's money bags. Within a year, a *Signory* came into power pledged to his cause. Cosmo was recalled from exile and the people paraded through the streets, shouting his praises. Cosmo then moved swiftly to establish dictatorship. His docile *Signory* summoned a *Parlamento* of the people, and it granted him unlimited power for five years. Rule by Parlamentos was the basis of his despotism. Every five years he obtained a fresh grant of absolute power directly from the people. It was only in a Parlamento that the people had a voice in the government of Florence and by invoking Parlamentos Cosmo established and sustained his dictatorship by vote of the people. Having made himself dictator, Cosmo then

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[1]T. A. Trollope, *A History of the Commonwealth of Florence,* Volume III, pages 51–53.

[2]Boswell, ed. Fitzgerald, Volume I, page 422.

proceeded to anchor his despotism firmly to government spending to keep the people on his side. He used the funds of the state liberally to make jobs for the people. He canalized the Arno, built model stone houses for the poor, which were rented out by the state at a loss. He built churches and public buildings. He created an extensive bureaucracy which provided paid jobs with which to reward the politically faithful. Under his rule many cold-blooded murders were committed by Cosmo and his gang, but the people did not care. They had work, and to the end Cosmo was their idol.

The dictatorship of Cosmo was created without any injury to the old constitutional machinery of the state. Indeed, his despotism was subtly cloaked under the name liberty. Up to the time of Cosmo, the eight Priors of the *Signory* had been called the Priors of the Arts. Cosmo had their name changed to Priors of Liberty so that, as Machiavelli slyly commented, "the people might at least preserve the name of the thing they had lost." To the outer world, the old constitutional machinery of the Florentine government remained intact. The clockwork was all there and in action. The wheels all seemed to revolve as usual. But as Trollope commented:

> Cosmo had his hand so continuously and to such purpose in the clock-case that he made the dial show what hour he pleased, as entirely as if he had simply declared that the time of the day was regulated by his own pleasure.[1]

Cosmo established dictatorial government in Florence in 1434. For thirty years he ruled with a despotic hand under the empty forms of the old constitution, renewing his dictatorial powers every five years by means of Parlamentos of the people.[2] When he died in 1464 he was voted the illustrious title of "Father of His Country" by the grateful rascals who survived him.

Cosmo nominated his successor and the dictatorship which he started lasted, with only one brief interlude, for more than three centuries. However, the pleasant phase of dictatorship from the

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[1]T. A. Trollope, *A History of the Commonwealth of Florence.*

[2]Toward the end of Cosmo's reign one significant departure from the old Constitution occurred. Instead of calling the people to grant a *balia* with dictatorial powers, the existing government acquired the power to create a *balia* on a motion from the *Signory* and confirmation by the three councils. This departure might have caused trouble but for the fact that the economic policies of Cosmo always kept the people on his side whatever he did.

standpoint of the people—prodigal public spending—lasted only part of this period. In the end the dictatorship of Cosmo grew into a throne. The people were abandoned to their poverty, the slums of Florence became models of filth and disease, while a small but effective royal army kept order.

The best obituary on the death of political liberty in Florence has been written by Armstrong:

> The Medicean power would have been impossible without the favor of the masses. These care little for the form of government. Their main interest is necessarily economic, rather than constitutional. Their support is given to the government which can raise their standard of comfort and provide diversion from their toil. If, in a modern state, the masses are democratic, it is because under a republican system they can use the weight of numbers to satisfy their economic needs. The material results of the Medicean tyranny gratified the populace. They did not heed that the theory of government was being changed.[1]

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[1]Edward Armstrong, *Lorenzo di Medici,* page 284.

CHAPTER VIII

THE CAPITALISTIC ORIGIN OF MODERN DEMOCRACY

LOUIS XIV, Le Grand Monarque of France, lived in the great palace of Versailles. In this immense royal abode 10,000 soldiers were quartered. It was staffed by 4000 servants. There were 5000 horses in the stables, and Her Majesty, the Queen, had more than 3000 dresses, while His Majesty, the King, had 600 pastry cooks. Louis was an absolute ruler. His famous dictum, "The State—it is myself," was not an example of princely boasting. It was the literal truth. The basis of his absolution was economic. Louis was a despot because Louis was an economic colossus—the richest man by far in his kingdom. A thousand years before, Charles the Bald had exerted only a shadowy power over his realm. Charles had been a king without authority because his personal fortune had been small in comparison with the fortunes of some of his subjects whom in theory he ruled. Without much land and personal economic power, Charles had been treated with indifference or contempt by the great landlords of his realm.

Louis XIV had reversed this situation. He had the wherewithal to bend a nation to his will. His ancestors had steadily added to a little bolus of family wealth and this bolus, rolling downhill like a snowball through six or seven centuries, had finally become an avalanche which swept all opposition out of its path. Louis was the greatest landlord and industrialist in his kingdom. Much of its arable land he owned in fee simple. These farms, chateaus, castles, forests and streams and pastures were called "crown lands," and they supplied his chain of royal residences with food and rich revenues from the sale of agricultural products. Much, too, of the industrial wealth of the nation was likewise owned in fee simple by Louis. His "crown monopolies" turned out soap, fine glassware, costly carpets and laces and cloth and other products.

As the French monarchy had grown in wealth, this power had been slowly but continuously translated into an increasing political control of the economic system. Under Louis, the French monarchy had achieved a complete control of the economic system. It was this authoritarian economy which gave birth to and sustained the despotism of the French monarchy. In it all business was the creature of the state. No one might engage in business without its permission. Government possessed the power to regulate prices, fix wages, and to interfere arbitrarily with production at any point. Private initiative in business was kept "in strict subjection and under suspicion." The important industries were either crown monopolies or the property of private monopolists, who had purchased their monopoly rights from the crown or received them as a political favor or act of friendship from the monarchy. Thus the Van Robais firm "enjoyed a monopoly in the making of Dutch cloth, extending for a radius of forty kilometers from Abbeyville," the Prince of Condé was awarded "an iron mining monopoly," while the Duke of Aumiers and the Duke of Aumont "received coal mining monopolies."[1] A man by the name of Crozat rose from a footman to be the greatest merchant of France, flourishing entirely on various monopolies which he purchased from the crown.[2] The chief efforts of government in this monarchical authoritarian economy were devoted to encouraging the production of costly luxuries to be consumed by a small group of privileged people. It was an economy woefully short on those basic staples which raise standards of living for the masses—plain food, decent shelter and adequate clothing.

Louis XIV ruled France for seventy-two years—from 1643 to 1715. For the people his long reign was one of economic misery and distress. But for the ruling hierarchy, at the top of which sat the Sun King, it was a glorious age. The King and Queen and their courtiers went to live in funny little country houses all dressed up as "milk maids and stable boys" and played at being shepherds in a happy vale of ancient Hellas. The French courtier became the last word for elegance of manner; the French language, the language of diplomacy. The court musicians composed lovely minuets and French cooking became the envy of the rich everywhere. The court barbers

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[1]Alfred G. Pundt, "French Agriculture and the Industrial Crisis of 1788," *Journal of Political Economy,* Volume XLIX, pages 849–874.

[2]John T. Flynn, *Men of Wealth.*

devised more and more elaborate and costly headgear; the royal pageants of Versailles, Fontainebleau and St.-Germain became the gossip of the world. The foundation of this despotism, whereby the few were sustained in unrivalled luxury by toiling peasants and common laborers, was the complete control of the economic system by government. This control, in turn, was due to the fact that competition had been rigidly excluded from the economic system. The preservation of this static economic order depended on the continued exclusion of competitive business. It was the infiltration of competition into this regimented economy which corroded away the political power of Louis XIV's absolute government. As competition invaded the system, it caused a shift of wealth and economic power to a class whose material interests were opposed to the whole theory of absolute monarchy and whose economic strength became sufficient to precipitate a successful revolution. There is a very popular impression that the French Revolution was the work of the rabble from the Paris slums. It was nothing of the kind. The mob appears often upon the revolutionary stage, but invariably under the instigation and under the leadership of a class which has sufficient economic power to bring about revolution.

LE BUREAU DE COMMERCE

The key regulative agency of Louis' despotism was the Bureau de Commerce. It had been set up to enforce a "system of monopolized industry and trade." Its job was to keep a close watch over this system and see to it that competition did not infect it. Had the Bureau done this, the whole course of French history would have been changed. The descendants of the Sun King would have sat securely on the throne of France indefinitely, their despotic powers unimpaired. But towards the end of the long reign of Louis, something began to happen to his Bureau de Commerce. It became infected with heresy. Its personnel became increasingly infested with officials who believed in competition and the freedom of trade. With the beginning of the eighteenth century, a trade current began to stir the waters of Louis' dead-sea trade system. This trade current was caused by the development of new and more efficient methods of production. The prevailing monopoly system was hostile to such progress, an ancient characteristic of monopoly. So under the nose

of despotic government, aggressive men began to emancipate themselves from the economic order which restricted all business opportunity to state-owned and state-chartered monopolies. As the Bureau de Commerce came more and more under the leadership of officials who believed in the new liberty, the Bureau launched a vigorous attack on the whole system of monopoly and special privilege. The conversion of the Bureau began as the Sun King was beginning to droop from age and disease and when he had become weary with the numerous details of his vast bureaucracy. Louis XV, who succeeded him, was far less hawkeyed in detecting and suppressing economic interests hostile to the absolutism of the state. The slothful Louis XV, eager to escape from the dull duties of ruling so that he might devote himself entirely to his mistresses and pleasure, was not even aware that an economic trend was in motion which was concentrating power in a class opposed to the whole theory of absolute monarchy.

A rising capitalist class became the natural enemies of despotic government which claimed the right to control trade arbitrarily. It was these men who furnished the means for preparing the people psychologically for the Revolution. Hunger would not have been sufficient. The people of France had been hungry many times, long before 1789. Their hunger, however, had not incited them to attempt the destruction of monarchy, for a simple reason. They had been under the spell of a mighty superstition. They had believed that the King was God's representative on earth and that it was a short cut to Hell in the hereafter to question his authority. The good Christian should never impute bad economic conditions to the King. He should carry his cross of hunger and believe that the King, God's agent, could do no wrong. The French philosophers supplied the intellectual ammunition to demolish this superstition. But it was the new bourgeois class which fired this ammunition and hit the target. They furnished the money for propagandizing the people with the pamphlets of the thinkers. As one scholar, Paul Wiriath, aptly observes:

> The preaching of all this generous philosophy, not only in France, but throughout the whole of Europe, would have been in vain had there not existed at the time a social class interested in these great changes and

capable of compassing them. Neither the witty and lucid form in which the philosophers clothed their ideas in their satires, romances, stage plays and treatises, nor the salons of Madame du Deffand, Madame Geoffrin and Mademoiselle Lespinasse, could possibly have been sufficiently far-reaching centers of political propaganda. The former touched only the more highly educated classes; while to the latter, where privileged individuals alone had entry, novelties were but an undiluted stimulant for the jaded appetites of persons whose ideas of good-breeding, moreover, would have drawn the line at martyrdom.[1]

The emergence of modern capitalism in eighteenth-century France caused for a time a considerable expansion of industry.[2] It is a fact that for nearly three-quarters of a century before the beginning of the French Revolution the French people as a whole enjoyed rising standards of living. Modern capitalism, producing in factories, with more efficient methods of production than existed in the old monopolized industries, caused a sharp fall in the prices of many products which had been formerly controlled by monopolies. Equally important, it initiated industries devoted to turning out conveniences for the masses instead of a class. The lowering of prices in general immediately increased the limited buying power of the small French agriculturalist who in many cases was practically a sharecropper. The rural housewife suddenly found herself able to afford dresses made by the cloth-printing industry. The farmer found that he could buy wool coats and clothing, while his daughters could afford the luxury of ribbons and silk hosiery. Capitalistic industry also offered employment opportunities to many peasants. Although the wages were small, they were in many cases better than the returns from farming. Industry also supplemented the incomes of farming families by piece-work, done in the home.

This expansion of French industry, however, was brought to an end by a sudden destruction of agricultural buying power. While French industry was becoming thoroughly capitalistic in its nature, French agriculture remained largely feudal. From three-fifths to two-thirds of the total land area of France was held by the King, the Church and the nobility. This land was cultivated by thousands of tenant farmers, whose meager incomes were heavily taxed—up to

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[1] *Encyclopædia Britannica,* "History of France."
[2] Alfred G. Pundt, "French Agriculture and the Industrial Crisis of 1788."

fifty or sixty per cent of the income, according to some estimates—by feudal lords, the King and the Church. The rest of the peasant's income permitted only a limited exchange of "rude for manufactured products."

The fall in industrial prices greatly enlarged for a time the buying power of this residual income. But from 1750 to the Revolution, the nobility increased their tax tolls on the peasantry. Ever in need of money, feudal landlords began systematically to squeeze the peasant, whose increase in prosperity had been noted. Measures were falsified, so that when the farmer paid his rent in bushels of grain, he was forced to pay more. Cash rents, where existent, were often reckoned on the highest price of grain, rather than on the customary average of the preceding three years. The corvee, or forced labor, was extended. Many servitudes, long fallen into disuse, were restored. The effect of these increased exactions was to curtail the capacity of agriculture to buy the new products which capitalistic enterprise had created for the masses. The buying power of agriculture was further curbed by natural calamities. The eighties brought a series of hail storms, droughts, floods and scorching winds. The result was an enormous rise in grain prices. The French peasant was forced to use practically all of his income to sustain life. He had little left to exchange for manufactured products. The harvest of 1788 was the worst in a century. French industry found itself without buyers, and collapsed. The heritage of this collapse was to plague the life of the infant French Republic.

The exactions of the feudal nobility had resulted in serious exhaustion of the soil. The peasant farmer, struggling to keep his head above water, could not afford to conserve the soil. Squeezed from above, he squandered the soil in his effort to live. By 1788, the failure to rotate crops, an unfortunate premium on wheat and rye culture which exhausted the soil, the sowing of flax on infertile or depleted soil, and neglect of drainage had wrought immense damage to the land. The French Revolution freed the French peasant of the feudal system, but this freedom could not cure the exhaustion of nature. A depleted soil inevitably retarded the recovery of the economic system.

In this bit of French history, there is also illustrated one of the fundamental principles which governs the sound operation of a capitalistic system. In capitalism, agriculture and industry are in-

separably bound together. The economy functions by the exchange of "rude for manufactured products." The possibility of maximum expansion in the system depends on the capacity of agriculture to buy the products of industry. Industry can expand only as far as agriculture can buy. The lowering of industrial prices made possible an increase in the buying power of French agriculture. But the feudal nature of the French agricultural system set definite limits to that increase. Until that system could be reformed so that the French farmer could have the incentive and the freedom to produce more food and raw materials, a further expansion of French capitalism would be impossible. The French Revolution brought about a substantial redistribution of landed wealth. Many idle acres under the Ancien Régime were liberated for production in consequence. But the general exhaustion of the soil in France was to hold back the forward surge of capitalistic production for a number of fateful years.[1]

The depression of 1788 in France was destined to last too long for the fledgling free government of the Revolution to survive. Until the exhausted soil of agriculture could be restored by time and intelligent care, French capitalism remained bogged down in unemployment and economic distress. The Revolution had been touched off by the depression of 1788 which had produced widespread famine. There had been established almost at once a democratic government based on the principle of universal manhood suffrage. Though the principle of universal suffrage was somewhat abridged in 1795, the

[1]We have seen that the destruction of agricultural buying power in Roman capitalism made it impossible for Roman industry to expand. The result was a contracted economic system which inevitably generated hideous slums and chronic unemployment. The system was kept alive for many years solely by war loot.

Prior to the depression of business in America in 1929, a steady growth of monopoly in industry had progressively reduced the natural buying power of agriculture. After World War I, American agriculture had actually become incapable of sustaining a sufficient volume of industrial production to avert widespread unemployment in the economic system. The employment which the system did furnish during the twenties was accomplished by the use of unsound private credit, a process which necessarily came to an end. When it did, the system collapsed at once in depression—a depression which had been due at the close of World War I. Government credit was then substituted to keep the economic system from disintegrating in starvation for the people. Until the natural buying power of American agriculture can be soundly restored by the elimination of private monopoly in industry, the economic system will remain dependent on government spending, and we shall see that government spending has already produced in America the ancient crisis of democracy.

French Republic remained vigorously democratic to its end. The permanence of the infant democracy depended on the capacity of the new democratic government to put the economic system on its feet, make it function to produce a reasonable prosperity for the people, and relieve widespread destitution. The inability of the government to do this is the basic reason for the short life of the first French Republic. Born from economic chaos, it perished by vote of the people because free government could not bring that chaos under control. The French people, disillusioned with the economic benefits of popular government, turned against their own theory and voted first for dictatorship and then for restoration of the monarchy.

In view of the exhausted condition of French agriculture, it is problematical whether the French Republic—even under intelligent and honest leadership—could have set the economic system in order, thereby protecting free government from economic chaos.

Under the Republic, France was continually at war. The reign of terror exposed property and life to enormous uncertainty. The excessive inflation, brought about by the issuance of *assignats,* caused incalculable suffering. These factors interfered with economic recovery and made the task of rehabilitation formidable. The task was impossible, however, because of the corruption of government.

The men who piloted the ship of state during the stormy days of the Republic were more interested in exploiting government for their own enrichment than in devising and executing sound plans for economic recovery. The venal and hopelessly incompetent government of the Directory was finally swept out of existence by an exasperated and suffering people who elected Napoleon dictator and then emperor.

The French Republic endured for ten years. During that time the democratic process was, on more than one occasion, temporarily suppressed by violence. The Republic, however, was *not destroyed by violence.* Democracy managed to wriggle clear and reassert itself after the Reign of Terror. The *coup d'état* of Vendémiaire was at least ratified by the people at the polls, when they created the Directory of 1795. The conspiracy of Fructidor was considerably undone by popular elections in March of 1799, when two members of the Directory were forced to resign because of charges of corruption. The *coup d'état* of Brumaire, which resulted in Napoleon's seizing the power of the state, was not the end of popular govern-

ment. Napoleon himself realized that he could not firmly ground his power on such an unconstitutional act. The people themselves did not regard the event as a destruction of their liberties.

The people were weary of free government which had failed to heed the economic needs of the ordinary man. When, therefore, Napoleon appealed to the populace to make *him a constitutional and democratic grant of dictatorial power,* they responded enthusiastically. In January, 1800, the people voted overwhelmingly to confer dictatorial power on Napoleon as First Consul for ten years. In 1802 they again voted overwhelmingly to make Napoleon First Consul for life. In 1804 the people, by an overwhelming majority, voted permanently to destroy the French Republic, elected Napoleon emperor, and approved a law of succession. In that election it is recorded that the Republicans "in nearly every case, voted for the re-establishment of monarchy."[1] The new Imperial Constitution of 1804 opened with these truly tragic words:

"The government of the Republic is confided to an Emperor."

Like Augustus and Cosmo de Medici, Napoleon understood the art of establishing tyranny under the forms of democracy. The dictatorial power which he obtained as First Consul was cleverly disguised under a constitution which recognized the forms of democracy. The right of suffrage, an executive and a legislature were all retained as window-dressing. But underneath this camouflage, despotic power was effectively concentrated in Napoleon. Like Augustus and Cosmo de Medici, Napoleon understood that tyranny in its early stages must enlist the support of the people. Under Napoleon the French State also became for a time a Santa Claus, showering jobs and economic benefits on an appreciative people. Public works programs, too, became in the hands of Napoleon an effective instrument for gradually parting the people from their political power with their own consent, until the scaffolding of tyranny was strong enough to be starkly revealed.

Under Napoleon, Louis XV's system of roads was widely extended, and Louis XVI's canals were multiplied. The lavish decoration of Paris opened up a building orgy. A second Rome began to arise with its Forum, its triumphal arches, its improved boulevards, its numerous fountains and parks, its new sewerage system, and

[1] Paul Wiriath, in *Encyclopædia Britannica.*

its shows and parades. Under the stimulus of relief work, provisions in a Paris which had often "suffered from hunger and thirst, a Paris that had often lacked fire and light, became cheap and abundant while trade prospered and wages ran high,"[2] and the people saluted the great Almoner.

AFTER WATERLOO

After the defeat of Napoleon, the Bourbons recaptured their family throne in France. But the throne was no longer despotic. Political power in the state had passed to the capitalist class. Like the Patricians of Rome after the expulsion of the Tarquins they organized a class government. The right to participate in this government was confined to those who had sufficient property to qualify as voters. The property qualifications effectively disenfranchised the bulk of the people. Economic forces, however, were at work which were to cause the permanent emergence of democratic government in France.

The peasant class had profited substantially from the Revolution. Many had obtained clear titles to their small farms and there had been a general relief from the onerous tax system of the old régime. With the gradual revival of the soil, now cultivated by farmers financially able to conserve and develop its fertility, the economic power of the peasant class steadily increased. In French cities there was also a gradual improvement in the standard of living of industrial workers. The driving force behind this general improvement in the economic condition of the masses was competition in business. The fundamental effect of competition is to diffuse prosperity. Under competition, the modern world was to make more progress in a few hundred years than it had in all the thousands of years since man had appeared. Everywhere in the world, where competitive business developed and capitalistic enterprise broke down old feudal restraints on trade, the standard of living of the people rose. In countries like France, England and America, it rose phenomenally —phenomenally when contrasted with preceding epochs of history. In France the great bulk of the people lived on a much higher plane than their ancestors under Louis XIV.

It does not take much prosperity per head among the people to

[2] *Ibid.*

generate enormous economic power in the aggregate. A people only have to be raised a little above the level of destitution to take an immediate and active interest in securing political power.

The growing economic power of the people reflected itself in vigorous agitation for the abolition of the class government of the great bourgeois and the establishment of universal suffrage. After several setbacks, the people finally triumphed. Following the defeat of France by Prussia shortly after the middle of the nineteenth century, the economic power of the people could no longer be resisted. The Third French Republic, bottomed firmly on a prosperous agricultural economy in which land ownership was widely diffused, came into existence. This democratic government lasted until its destruction by Hitler in 1939.

ENGLAND

Modern capitalism really began in England. It began there nearly two centuries before it appeared in France to undermine the despotism of the Bourbons. For this reason, England had already achieved remarkable progress towards democratic government when Louis XIV was exercising his royal prerogative of sending to the Bastille anyone who offended him.

During the century from 1540 to 1640, while the French monarchy grew more powerful until it culminated in despotism, the English monarchy, despotic in 1540, grew steadily weaker. In this period the English people scrapped the whole theory of Divine Right—the religious pillar of absolute monarchy—and established in its place a limited monarchy which was to grow steadily weaker until it became only the ornamental head of a democratic government. At the same time, the standard of living of the English people rose perceptibly while that of the French people fell.

In 1498, Henry VII is reported to have said to the Spanish Ambassador that he intended to "keep his subjects low because riches would only make them haughty."[1] This Henry apparently understood clearly that so long as the English monarchy had the economic power, it would be secure. His successors, however, were not able to prevent their subjects from growing rich. The subjects of the

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[1]John Ulric Nef, "Industry and Government in France and England, 1540–1640," *Memoirs of the American Philosophical Society,* Volume XV.

English crown "grew haughtier in every decade" and in the end the crown ceased to have any political power. Henry VII was succeeded by his son Henry VIII. Henry VIII reigned as a supreme monarch. He killed anyone he disliked, including two wives. All England quailed under his absolutism—an absolutism made possible because of the enormous personal wealth of Henry VIII, the complete control of the economic system by government, and the lack of incentive and economic power—in any class or group in the kingdom—to oppose the absolutism of the crown.

Henry VIII died in 1547. Shortly after his death, a great industrial expansion began in England, caused by new inventions which revolutionized old methods of production and introduced new products. It broke up the static economic order of Henrys VII and VIII. Competition invaded the system and the production of *wealth increased enormously*. The old order of royal and private monopolies fell before the onslaught of new ideas operating under the spur of competition. The first effect of this industrial revolution was to cause a shift of economic power from the English crown to a rich and powerful industrial and mercantile class. The economic power of this class was immediately translated into political power. Step by step the old autocratic powers of the crown over industry and trade fell away. Competition became the natural and most efficient regulator of business activity. By 1640 England had become the leading nation of Europe in "mining and heavy manufacturing." Standards of living for the English people had risen more than in any other part of the world. When Charles I tried to reassert the old prerogatives of the crown to control industry and trade and to govern autocratically, the new and powerful industrial and mercantile class opposed him and triumphed in the ensuing civil war. Charles I went to the scaffold because the crown no longer possessed sufficient economic power to back up its pretensions to absolutism. But for the industrial expansion in England between 1550 and 1640, Charles I would have had no difficulty in imposing his royal will on the people.

> The king might have crushed the opposition [Cromwell backed by the industrial and mercantile class] *by arms had it not been for its economic strength.*[1]

[1] *Ibid.*, page 152. My italics.

Thus the first phase of the industrial revolution in England (1550–1640) destroyed absolute monarchy, made its revival impossible for the future, and transferred the control of government to the rich merchants and traders who had largely destroyed the old economic order of royal monopolies and of private monopolies sanctioned by the crown. The new mercantile and industrial class had introduced competition into the static economic system of Henry VII and Henry VIII. Competition had brought about a redistribution of national wealth. It had created a new industrial and commercial class economically strong enough to overthrow absolute monarchy and to establish political liberty at least for itself. In the second phase of the industrial revolution in England—a phase which began towards the end of the eighteenth century—competition became the all-powerful regulator of trade, causing another shift of economic power. Prosperity at the top began to seep down to the masses. Living standards rose and finally the economic power of the people became sufficient to transform a government, in which the right of suffrage was restricted to men of wealth, into a democracy.

TWO PHASES OF MODERN CAPITALISM

The operation of modern capitalism should be divided into two distinct phases. In the first phase, competition emerges in monarchical authoritarian economic systems and becomes the dominant regulator of trade and industry. Competition causes an enormous expansion in production and diffuses this prosperity among the masses. In nations like England and France, the economic power of the people becomes sufficiently great to establish democratic government.

In the second phase of modern capitalism—a phase which begins in the latter part of the nineteenth century—a new concentration of wealth develops in the system. This concentrated wealth proceeds to expel competition from business and to create a new system of private monopoly. The effect of the new system is to restrict the natural capacity of capitalism to produce. The tremendous progress in living standards achieved under capitalism in its first phase begins to slow down. Finally, capitalism breaks down in unemployment. The frustrated productive powers of capitalism then precipitate in the modern world the same crisis in free government which oc-

curred in the ancient world. Free government explodes in dictatorship in Germany and Italy. In France, the people, disillusioned by the failure of democratic government to protect them from economic exploitation and suffering from unemployment, become psychologically ripe for dictatorship. England, too, drifts dangerously towards the reefs of the authoritarian state, while in America the shadow of Octavius becomes unmistakable.

CHAPTER IX

THE PIED PIPERS OF ITALY AND GERMANY

ITALY

MODERN Italy was born in 1859. That year eight small states were united in a common government. For the first time in some fourteen hundred years the Italian peninsula was again under the rule of Italians. The new government was not a thoroughgoing democracy. It was a constitutional monarchy with a King, an aristocratic Senate appointed for life, a Chamber of Deputies, and a limited electorate. Only about two per cent of the people could vote because the right to vote was restricted by property and literary qualifications. The economic life of the people was originated in a capitalistic system.

From 1859 to 1913, two economic trends left their imprint on the political life of the new nation. One was the improvement in the economic condition of the people due to the expansion of capitalistic enterprise. Not only in Italy, but all over the world, the march of capitalism increased the economic strength of the people. The growth of economic power among the masses had its inevitable effect on political structures, liberalizing them and expanding the political rights of the people.

In Italy, constitutional monarchy evolved into a fairly vigorous democracy through successive broadenings of the suffrage base.

The other economic trend, however, sowed seeds of future dictatorship. In Italy, as elsewhere in the world, business men began to misoperate modern capitalism with the connivance of democratic government. The effect of its misoperation was to concentrate wealth steadily and to destroy productive power in the Italian economy. Private and governmental restraints on trade spread and became the chief source of lost productive power in the economic system. The loss of productive power in turn began to break the economic sys-

tem down in unemployment. Italian ministries embarked more and more on the perilous policy of combating this unemployment with government spending instead of seeking soundly to relieve the fatal pressure of concentrated wealth on the natural productive powers of private business. By 1913—the eve of the first world war—Italian statesmen had piled up a public debt of some fifteen billion lira which represented the relief activities of the Italian government over a period of about a half century.

The basic economic effect of the world war on Italy was to cause a further concentration of wealth which completely shattered the already enfeebled productive powers of her capitalistic economy. After the war, the economic system became completely dependent on government spending to avert famine and revolution. From 1920 to 1923, the new spenders made the old seem economical by comparison. The old pre-war spenders, in fifty years, had left a public debt of fifteen billion liras. In three years, the new spenders had "upped" the public debt by more than forty-nine billion liras.[1] The Italian nation, its economy hopelessly dependent on government spending to sustain life, was primed for dictatorship. Such a condition had never failed in history to call forth some political figure who would seize upon that spending to fashion autocratic government.

Benito Mussolini, calculating opportunist, came into power as the professed foe of communism and the friend of capitalism and free government. He had solemnly denounced dictatorship, and had pleased the great Italian bankers and industrialists by declaring:

> I only say that the usefulness of capitalism is not ended. Capitalism has borne the monstrous burden of war and today still has the strength to shoulder the burdens of peace. Many think, and I am one of them, that capitalism is scarcely at the beginning of its story.

Such sentiments actually represented a repudiation of Mussolini's former radical beliefs, but by this change of heart he secured the financial backing of Italy's big business men. Before taking office he had pledged himself to balance the budget. There was only one way to do that. Italian capitalism would have to be reformed so that the productive powers of the economic system which had been suppressed by concentrated wealth would be released. As these

[1] John T. Flynn, *As We Go Marching.*

powers were released, private business would recover and be able to shoulder the employment load of the nation. Government spending would then decline to a point where the budget could be balanced. The task of reforming Italian capitalism would have been a formidable one under any circumstances, and the job called for a statesman of the highest caliber. But Mussolini was at heart a politician, and sincerely interested in keeping himself in power. Government spending offered an easy way to do this, and so Mussolini forgot all about his balanced-budget pledge and turned to spending with enthusiasm. Under his régime from 1923 to 1934, public debt soared into the clouds. By the latter year it was around one hundred fifty billion liras and still climbing vigorously.

The torrent of spending released by Mussolini inevitably washed away the foundations of Italian democracy. In prewar Italy, government spending had never been necessary on a scale sufficient to make it possible for any administration to control Italian democracy completely. There was enough producing power in private business, despite the misoperation of Italian capitalism by business men, to keep government spending within bounds. By the time Mussolini came into power this situation had ceased to exist. The loss of productive power in the economic system had become so great that the government had to spend on a large scale to keep unemployment from generating chaos. The scale of government spending was now great enough to make it possible for an administration to buy up the independence of the electorate. Only a successful reform of the economic system could have produced a sound revival of private business and reduced the scale of government spending to a point where it would have been inadequate to control the electorate.

Through spending, Mussolini kept the voters on his side. This was the first and pleasant phase of the emerging dictatorship. It was marked by tangible benefits to the people in the form of jobs and improved living conditions. In the second phase, dictatorship, firmly established, unmasked itself and the people found themselves under the rule of a gestapo. The steps by which this end was reached are clearly marked. A broken-down capitalistic economy, helplessly dependent on government spending, does not stand still. It drifts toward authoritarian controls. First, government spending was incorporated into a philosophy of sound prosperity.

It was certain that a great man like Mussolini, who was being

toasted by great bankers, business men and public officials in other nations as the savior of Italy, would seek to justify to the world a prosperity based on public debt. Historically, unrestrained public debt had always led to public bankruptcy and much misery for the people as well as business men. So, as the Italian people enthusiastically continued to vote for Mussolini, they were indoctrinated with the idea that the spending policy of Mussolini was the basis of a sound and enduring prosperity. They were instructed that the public debt could be increased indefinitely and that the government must help business men to plan production in the interests of the people.

Armed with the crushing political power which stemmed from his spending policy, Mussolini established an authoritarian economic system in which all economic activity was planned and controlled by government. When this had been accomplished, capitalism had been liquidated and Mussolini had made himself the absolute master of the people.

He no longer had to worry about political elections. Though the forms of the dead democracy were retained, the people dared not oppose or even criticize a government which controlled every individual's opportunity to work and eat.

GERMANY

The dictatorship of Hitler is much like a Barrymore modernization of an ancient historical tragedy. The actors wear different clothes and speak a different language; but there is a remarkable fidelity to the original plot. The members of the German Reichstag did not wear togas. Nor did they speak in the tongue of Horace or Virgil. But under the pressure of economic conditions, they voted free government out of existence in modern Germany with the same alacrity and blindness as did the legislative minions of the pre-Christian Octavius.

In the middle ages, the German people had been the humble servants of numerous feudal lords. With the rise of modern capitalism, after a long night of political and economic despotism, a shift of economic power occurred in the feudal states of Germany, as in England, France, and in a large part of continental Europe. The lords of the land found their political absolutism gradually

weakened and eventually destroyed by a new industrial and merchant class. The shift of economic power from the feudal lords to the new bourgeois did not stop there. Modern capitalism began to pump economic power down to the masses, whose economic condition improved. The increased economic strength of the German people reflected itself in agitation for political rights, and in a number of the states which were united in 1870 to constitute modern Germany, the people had achieved considerable political recognition.

From 1870 to 1914, there were two trends in the German economy. The expansion of capitalistic enterprise carried economic power to the people and the people grew stronger politically. While Germany, on the verge of war in 1914, was classed as a monarchy, the people had made remarkable political progress. A popular legislative house had been established and in it a socialist party held the largest number of seats. The economic power of the people had made itself felt in what is called progressive social legislation. Germany had been the first nation in the world to establish old-age pensions.

From 1870 to 1914, another force was also operating in the German economy and it was this force which was to insure the dictatorship of Hitler. Wealth concentrated to an increasing degree in spite of the improved economic condition of the people. The continued concentration of wealth eventually made it impossible for German capitalism to furnish employment to the people. It produced in 1929 an economy completely dependent on government spending, and this condition produced a dictator, as it always has in history.

THE WEIMAR REPUBLIC

Democratic government came to Germany as a result of the Allied victory in 1918. The Allies were opposed to the Hohenzollern dynasty, and it disappeared in exile. The strong democratic forces which had made much headway before the war gained the upper hand after repelling communistic violence. A democracy was established, but this new democracy was erected in an economic environment which was to make it impossible for it to survive. The attempt to graft a free government on to a plutocratic economic system was destined for failure.

The new democracy could survive only if it could make capi-

talism in Germany function to provide reasonable employment and prosperity for the people. The concentration of wealth, however, which had existed in the economy before the war and which had been formidably increased by huge war profits, was equal to the task of exerting a complete control over the new democracy. It reduced the new democracy to impotence almost from the hour of its birth. During its life, wealth continued to concentrate in the economy, causing a loss of productive power in private business that finally became fatal to its survival. The most important device causing the economic system to lose producing power was private monopoly, which proliferated during the life of the new democracy. Even German agriculture was organized to restrict production, a tragic policy in the light of the nation's need to import twenty-five per cent of its food supply.

ECONOMIC GENESIS OF HITLER

The economic genesis of Hitler can be traced in the data on unemployment in the economic system and its cause. Within eight years unemployment rose from a little over half a million to five and one-half million, until more than one worker out of four was without employment.

The official figures[1] for the years 1925–1932 showed the following number of unemployed persons:

Year	*Number Unemployed*
1925	687,000
1926	1,028,000
1927	1,336,000
1928	1,376,000
1929	1,916,000
1930	3,140,000[2]
1931	4,573,000[2]
1932	5,575,000[2]

The story of the monopolistic concentration of German industry is given by the statistics on cartels:[3]

[1]International Labor Office, 1933.
[2]Indicates world economic depression years.
[3]*Monograph* 40, Temporary National Economic Committee Monographs.

Year	*No. of Cartels*[1]	*Estimated by*
1865	4	Sombart
1875	8	"
1887	7	Philippovich
1888	75	"
1889	106	"
1890	117	Sombart
1895	143	Bricher
1896	250	Sombart
1900	300	Central Assn. of German Industry
1905	385	Gov't Enquete
1911	550–600	Tschierschky
1922	1000	Liefmann
1924	1500	Reich Ass'n of German Industry
1925	2500	Government
1930	2100	Wagenfuehr

The effect of the increase of monopoly in the economic system on price is also clear. The wholesale price indices[2] for the period 1923–29 show:

Year	*Price Index*
1923	95.1
1924	122.5
1925	130.4
1926	134.4
1927	137.6
1928	140.0
1929	137.2

Monopoly by raising prices decreases buying power in an economy. The decrease of buying power reduces production. The rise of wholesale prices by nearly fifty per cent between 1923 and 1929 in the German economy caused unemployment to mount. Technological progress during this period greatly aggravated the normal effect of monopoly prices on production and employment.

Beginning in 1925, labor-saving machinery was widely introduced into German industry. This was the famous "rationalization" program which was widely acclaimed as a scientific effort to strengthen

[1]Cartel is merely another name for monopoly. Roughly defined, it is an association of business men for the purpose of enhancing prices so as to obtain maximum profits through restricting the production of a commodity or service.

[2]German Institute for Business Research.

Germany's position in foreign markets. Under conditions of monopoly, the introduction of labor-saving machinery causes what is known as technological unemployment. Under conditions of competition, technological unemployment is resisted by the economic system.

Labor-saving machinery enabled German monopolists to produce with fewer workers the quotas they had established. The unnecessary workers were promptly fired. Under competitive conditions, the use of labor-saving machinery, which lowers cost of production, is followed by a fall in prices. The fall in prices enables consumers to buy more goods and stimulates production, thus tending to prevent the displacement of workers.

Here and there a few clear thinkers agitated against the paralyzing growth of monopoly. In 1923 the critics of monopoly succeeded in passing a law which empowered the government to dissolve cartels. However, not a single one was dissolved. Plutocracy effectively scuttled the law and monopoly marched on,

As the new democracy permitted monopoly to dry up jobs, more and more Germans found themselves without work. Unemployment was actually far more serious than the official figures indicated, for many people who would otherwise have been unemployed found jobs on public works projects. All during its life, the new democracy was forced to spend to combat unemployment, but the volume of such spending did not reach a critical point until after the world-wide depression of 1929.

By 1930, this depression had caught up with the German economy. Unemployment immediately became tremendous. Of crucial importance was the fact that this unemployment would continue indefinitely and necessitate government spending on a large scale unless monopoly prices in the economic system could be eliminated.[1]

[1]When depression strikes an economic system in which prices are controlled to a high degree by private interests, unemployment mounts quickly. In the United States, industries which had established a control over their prices generally had a very significant behavior pattern after the crash of 1929. Prices in these industries generally declined only a very small percentage when compared to the decline of prices in industries operating under competitive conditions. Employment in these industries declined by a much larger percentage when compared with the decline in employment in industries governed by the laws of supply and demand. In competitive industries, the lowering of prices made it possible for consumers to buy more goods than they could in industries which held their prices up. This greater buying power in competitive industries tended to hold production up and keep unemployment down.

These prices operated to lock the economic system indefinitely in depression. The system had to be thoroughly reformed to recover.

DICTATORSHIP

Methods of terror did not make Hitler a dictator. The force which did was entirely economic in its nature. In the early phases of the dictatorship which ultimately emerged, violence was employed. But this violence did not affect the majority of German citizens. It was directed against victims whose destruction was actually hailed by the bulk of the people—communists and the personal enemies of Hitler. It was the economic policies of Hitler which made the masses indifferent to violence until it was too late to turn back. Konrad Heiden, in his authoritative and illuminating work *Der Fuehrer* admits that the terroristic methods of Hitler were actually "admired by the people" who only had a feeling that "a hideous necessity had worked itself out."

At noon on January 30, 1933, President Hindenburg administered the oath of office to Hitler as Chancellor of the German Republic. Like Mussolini, Hitler posed as a friend of capitalism and freedom, adjuring former radical beliefs, and gained the support of great bankers and industrialists. This support was a major factor in bringing him into office. New elections to the Reichstag were scheduled for March 5. Between January 30 and March 5, Hitler's party committed many acts of violence designed to intimidate voters. Yet, on March 5, the people had not been reduced to control by such violence. The Nazis, to their dismay, found that their violence had reacted against them. The party failed to obtain a majority in the Reichstag. Let us now behold the economic force which delivered the people into Hitler's power.

In the next elections to the Reichstag, the Nazi party secured an overwhelming majority. In this interim period, Hitler broke the back of German unemployment by government spending. He brought about the employment of millions of jobless workers through a vast public works program. A democratic electorate suffering from wide-spread unemployment is likely to resist any attempt to gain supreme power by methods based solely on the use of violence. The people must be convinced that those seeking power can improve their economic condition. If that is done, the people will be extremely

tolerant of the use of violence so long as it is directed against unpopular sections of the nation.

The moral effect of Hitler's successful employment program was to benumb the people. This program was accompanied by a rationalization of government spending into a sound philosophy of abundance. The Fuehrer spoke positively of the great economic millennium which lay just around the corner for the people. As he did all this, he electrified the German masses with hope. It was the same hope which had moved other peoples in the past to hand over the control of economic systems to political leaders, who by spending had assuaged their economic misery, and to become insensitive to such trivialities as "murder" when perpetrated by their benefactor on his personal foes. Cosmo di Medici had also killed his enemies in cold blood, but the Florentine people, enjoying the benefits of government spending, were insensitive to any moral appeal.

Through government spending, Hitler liquidated German capitalism and established his dictatorship on the firm foundation of an authoritarian economic system. The German state, too, managed and planned production. It is in this mature phase of Hitler's dictatorship that the use of violence becomes legitimatized as a normal function of government and is applied to all the people. Under the forms of democracy, the German people hastened to vote regularly, while the few courageous persons who dared to oppose the brutal reign of force disappeared or were killed. It was in the mature phase of Hitler's dictatorship that the persecution of Jews, Catholics and all who lifted a voice of protest against Nazism became systematic and nationwide. It was then too late to remedy matters.

PART II

THE HISTORICAL CRISIS IN AMERICA

CHAPTER X

A PREVIEW

THE evolution of democracy in ancient Rome and in the United States is very similar. There is no better way to begin to understand the crisis which confronts our democratic government at the present hour than to trace out briefly this remarkable parallel.

FIRST PERIOD OF AMERICAN DEMOCRACY

In 1783, the American people successfully revolted from the rule of a king. When after five years, a Constitution was finally adopted, the government which was created under it was thoroughly undemocratic. The Constitution itself had not been formulated by representatives of the people. No small farmer, small business man or workingman had participated in the deliberation of the Constitutional convention. The delegates to this convention had been great plantation owners, big bankers and business men and lawyers who represented their interests. Their domination of the Constitional convention reflected a formidable concentration of wealth and economic power that had been inherited from Colonial America.

There is a school-boy fiction that the thirteen original colonies were local democracies "formed on the pure principles of a New

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THE PARALLEL

Rome: The first period of Roman democracy begins with the founding of the Republic and ends with the emergence of a vigorous democracy. During this period the Roman people revolt from the rule of a king. The first government established under the Republic, however, is far from being democratic in principle. It is a government controlled exclusively by great patrician land owners. This government of the wealthy reflects a concentration of landed wealth in the Republic inherited from the Etruscan dynasty. Democratic government did not come into existence or become vigorous until this concentration had been levelled away and a condition of relative economic equality had been established among the Roman people. The economic force which disintegrated the political power of the patrician class, the reader will recall, was the acquisition of freehold estates by the plebeian class.

World philosophy and on substantial economic equality."[1] The truth is that Colonial America was very quickly afflicted by a concentration of wealth, which promptly expressed itself politically in Colonial Assemblies composed only of substantial property holders.

Practically all the original colonies were settled by trading companies. These trading companies enjoyed by royal grant a monopoly over all the land in the territory which had been given to them. Thus, Virginia was settled by the Virginia Company, New York by the Dutch West India Company, and Massachusetts by the Plymouth Company. The policy of these companies was to grant huge estates to rich men who agreed to bring to the New World forty or fifty settlers. In a very short while most of the good land on the Atlantic seaboard was in the hands of a few powerful landlords. The genuine immigrant, who came to America with only a spirit to work and no capital, early found it extremely difficult to acquire good agricultural land and to establish himself on an independent footing. Most of the real settlers were forced to become tenants on feudal principalities, or to engage in the callings of the artisan which carried with them the badge of social inferiority.

The trading companies also enjoyed a monopoly over all commerce in their respective territories, and the best opportunities to trade were given to persons either connected with the trading companies or to men of wealth who could afford to buy trading concessions. Thus, long before the American Revolution, there had occurred in the South a concentration of land and a monopolization of trade and commerce by a few powerful families. Many a poor immigrant who had fled the Old World because of a lack of economic opportunity due to the absorption of land and trade opportunities by the few, found in Colonial America a transplantation of the same conditions. In the South the concentration of wealth soon created a numerous class of poor whites. Unable to find land on the seaboard, or dispossessed of their land in this fertile belt, or unable to compete with large plantations manned by slave labor, or prohibited from engaging in trade except as the poorly paid employee of some monopolist, this class was gradually pushed into the hinterland. There on far less fertile soil they eked out a bare existence.

In New York State, the Dutch West India Company handed out enormous tracts to its favorites. These patroon estates became model

[1]Charles A. Beard and Mary R. Beard, *The Rise of American Civilization.*

feudal baronies. The proprietor maintained his own private military establishment, owned the courts, and compelled his tenants to render free services on his house and fields, to grind their flour at his mill, to buy lumber at his sawmills and liquor at his brewery, their clothing and primitive agricultural machinery from his private commissariat at prices reckoned in terms of produce and dictated by himself. It was a lucky tenant indeed, who was not always in debt to his patroon. In New England, the Plymouth Company also parcelled out the land to a few masters.

Trading companies were finally abolished by the English Crown. New York passed into the hands of the English and there was inaugurated a system of colonial governors. Then begins a second period of land concentration. This time the creation of large estates is due largely to political bribery. Governor Fletcher of the New York Colony became a veritable Roman Narcissus, creating vast dominions for anyone who would pay his price.[1] We find an honest-minded British official, Lt. Governor Cadwallader Colden, writing from New York in 1764 to the Lords of Trade in London and vigorously decrying these thefts of land.[2] In Massachusetts, the Earl of Bellomont found to his amazement that one man, Colonel Samuel Allen, claimed to own the whole of what is now the State of New Hampshire. The Governor opposed the fraudulent claim of Allen though he records that Allen tried a number of times to bribe him to recognize it.

The concentration of land wealth in Colonial America was followed by a concentration of the industry and commerce which sprang up. In the seventeenth and eighteenth centuries, modern capitalism was struggling to be born against the powerful opposition of the long established order of feudalism. Nowhere was there any recognition of the principle that it was the duty of the state to regulate free initiative in business, so as to prevent dishonesty and assure fair play.

In Colonial America, when government did interfere with business, it was for the purpose of conferring upon insiders special privileges, such as the giving away of state land or the granting of monopolistic rights in trade. Beyond that, the business man was generally left to his own unfettered ingenuity in amassing riches.

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[1]Gustavus Myers, *History of the Great American Fortunes.*
[2]*Ibid.*

Business was consequently thoroughly saturated with cunning, fraud and force, and a swift concentration of wealth in Colonial America was inevitable.

One class of Colonial rich men made their wealth by systematically intoxicating Indians and obtaining from them valuable furs or land for a few trinkets. Another class reaped their fortunes by organizing timber rings and stealing trees from Crown lands or from the lands of owners unable to protect their forests. Money lenders throve on usury, which flourished without interference from rich men, since only the needy had to borrow money. Industrialists fattened their purses on apprentice labor indentured to them for long years to work for only its bare upkeep and to work for as many hours a day as the master decreed. Fortunes were made by kidnapping common and skilled labor in Europe and selling it into bondage in America, by outright piracy on the high seas, and other predatory ways.

In the great shipping fortunes, we see the pervasive use of the technique of adulteration. One student of these fortunes states emphatically: "Fraudulent substitution was an active factor in many, if not all, of the shipping fortunes. The most infamous frauds were carried on and so dominant were the traders' standards that these frauds passed as legitimate business methods."[1] A lucrative traffic flourished in palming off Chinese yellow dogwood for genuine Turkey rhubarb. A profitable market flourished in counterfeiting Italian and English silks. The best products of the Old World were adulterated and sold at many times their cost. Royal governors, with their time much occupied in conniving in the theft of Crown lands, were indisposed to get righteous about the dishonest practices of the commercial fraternity.

The rapid concentration of wealth in the Colonies promptly expressed itself in local governments thoroughly oligarchic in nature. Colonial assemblies were completely dominated by great land owners, shippers and merchants. This was accomplished by permitting only those possessed of a certain amount of property to take part in local government. Such property qualifications on the right to vote for members of Colonial assemblies automatically excluded a high percentage of the population.

Colonial assemblies not only protected, but promoted, the concen-

[1]Gustavus Myers, *History of the Great American Fortunes.*

tration of wealth which existed, through various legislative favors. Large land owners were able to secure exemptions from taxes. The tax burden was shifted to small farmers and city workmen. The usurious loans of many lenders were given maximum security by laws which imprisoned debtors who did not meet their obligations punctually. Business men, whose comfortable profits were deeply rooted in sweated labor (the system of indentured apprentices), were protected in their practical ownership of human beings by laws which made it a crime for an apprentice to flee the terms of his bondage, no matter how inhuman his master might be.

An active ally of the oligarchic Colonial Assembly was the local judiciary. It was in these local courts that disputes over land boundaries were tried; and it was in them that many a small land owner handed over his hard-earned acres to the greed of the great land owner who knew his courts. The judges were invariably men of substantial property interests and in close social and political alliance with great land owners. The costs of litigation, once an unscrupulous large land owner had cast covetous eyes on a smaller neighbor's fields, was practically prohibitive; and if by accident the small land owner could bear the expense of defending his property, he then had to face a judge who generally regarded him as merely one of the rabble. From Massachusetts to Georgia, Colonial America was full of Athenian Demiurgi and Geomorri who found themselves defenseless under Eupatridæ governments. The history of ancient Athens was repeating itself on the soil of the New World. Occasionally there would be a revolt of the oppressed people. Bacon's Rebellion in Virginia in 1689 was an uprising of the poor white population, infuriated by unjust taxes, judicial corruption, and their rigid exclusion from any participation in the local government which was oppressing them. For a time, the rebels thoroughly scared the ruling class; but in the end, the rebellion was put down with a firm hand after much bloodshed. When Charles II of England heard of the wholesale executions decreed by Berkeley, the Royal governor of Virginia, he is said to have exclaimed:

> The old fool has taken more lives in that naked country than I for the murder of my father.[1]

Colonial America was a plutocratic America. Of this fact there

[1]Charles A. Beard and Mary R. Beard, *The Rise of American Civilization.*

can be no doubt. Long before the Revolution, an extreme concentration of wealth existed in the Colonies, which had produced a class system practically as rigid as that existing in the Old World.

At educational institutions, such as Harvard and Yale, students were ranked according to their wealth. In churches, Puritan and Anglican alike, congregations were seated according to the size of their estates. Everywhere there was a brand of inferiority upon the small farmer, the small artisan and the city worker. Professor Beard tells us that when the son of a Boston bricklayer was elevated to the office of Justice of the Peace in 1759, his right to the office "was attacked on the grounds of his low social origins."[1]

Long before the despised common man in Colonial America had tossed British tea in the Boston harbor and touched off the Revolution, concentrated wealth had produced hideous slums in Philadelphia, New York and Boston. It had produced an industrial proletariat, oppressed by harsh laws of apprenticeship, usury and taxation. As late as 1777, John Adams could declare disdainfully that the lot of the average white man in America was "as abject as that of slavery."[2] Concentrated wealth, too, had produced a rural population oppressed by the concentration of the most fertile lands in the hands of a few great planters and land owners, a concentration thoroughly protected by the legal device of primogeniture and entail; and finally, everywhere in the New World, concentrated wealth had molded local government along oligarchic lines.

THE CONSTITUTION

Let us now see how the principle of oligarchic government so firmly entrenched in Colonial America was carried over into the Federal Government created by the Constitution. The framers of the Constitution were, without exception, large property holders. In their political philosophy, they thought in terms of oligarchical gov-

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[1]Charles A. Beard and Mary R. Beard, *The Rise of American Civilization*.

[2]"It is of no consequence," coldly remarked John Adams in the Continental Congress in 1777, "by what name you call the *people*, whether by that of freemen or slaves; in some countries the laboring poor are called freemen, in others they are called slaves; but the difference as to the state is imaginary only. The condition of the laboring poor in most countries—that of the fishermen particularly of the Northern States—is as abject as that of slavery." (Charles A. Beard and Mary R. Beard, *The Rise of American Civilization*, page 132.)

ernment. Their aim was to create a Federal Government which would secure for their class in the sphere of national affairs the same exclusive control of government as existed locally. They frankly despised and feared democracy, which would mean the rule of those with little or no property. The men who framed the Constitution were almost unanimously of the opinion that democracy was a dangerous thing "to be restrained, not encouraged, by the Constitution, to be given as little voice as possible in the new system."[1]

Nowhere in the Constitution is there to be found any provision for male suffrage. The silence of the Founding Fathers on this point was deliberate.[2] After considering enthusiastically proposals to restrain the masses by putting property qualifications directly on the suffrage and on high Federal offices, the Convention finally decided to leave the matter of suffrage qualifications to the states. Why? The Constitution of the states which had come into existence after the Revolution had, without exception, embodied the principle of oligarchic government by putting high property qualifications on the right to vote.

Virginia, for example, required the elector in town or country to be a freeholder and owner of land of a stated acreage. In Massachusetts, the suffrage was reserved for men who possessed property to the value of £40; and no man could run for governor unless he was worth a clear £1000. In Pennsylvania, one could not vote unless he held property worth £50. In North Carolina, one could not be a candidate for governor unless he owned £1000 in freehold estate; nor in Georgia if he did not own 500 acres of land and other property worth £4000; nor in New Hampshire if he did not have £500 worth of property. In South Carolina, the aspirant for governor had to own £1500 in property clear of all debts. In New York, only residents owning real estate to the value of £100 free of all debts could vote for governor and other state officials.[3]

Leaving it to the states to determine the qualifications for Federal suffrage seemed safe enough, at least for the immediate future. But what about the distant future? Might not the masses some day succeed in getting rid of the property qualifications which excluded

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[1] Charles A Beard and Mary R. Beard, *The Rise of American Civilization.*

[2] Even Thomas Jefferson did not embrace the idea of manhood suffrage until many years after his writing of the Declaration of Independence.

[3] Gustavus Myers, *History of the Great American Fortunes.*

them from the franchise? This important point was not neglected by the Constitutional Fathers. Madison, in particular, clearly foresaw this danger. Madison also seems to have understood the economic consequences of concentrated wealth, for he prophesied to the Convention a time not far distant "when the great mass of the people would be without land or any other kind of property, and when in spite of all precautions, a triumphant majority might get possession of the political machine and make it an engine for their purposes to the detriment of the public good."[1] In Madison's mind, of course, the public good meant the interests of concentrated wealth.

So, the Convention anticipated the danger predicted by devising a system of checks and balances which could be counted upon to make it extremely difficult for the peoples' will to control the Federal government should they by accident wrest from state governments in the future the right of manhood suffrage. Professor Beard says that the Constitutional Fathers set themselves to the task of "dissolving the energy of a democratic majority," should that threat ever materialize. Says Professor Beard:

> They provided a way for breaking its strength at the source by providing diverse methods for electing the agencies of the new government and threw special barriers in its path by setting those agencies, with their several ambitions, prerogatives and insignia, at cross purposes. In short, the Fathers created a system of "checks and balances" dividing the power of government among legislative, executive and judicial branches, with confused and uncertain boundaries. All the world has marvelled at their dexterity.[2]

Though this was the purpose of the Fathers, it does not follow that such a system of checks and balances could not be made to work advantageously to the interests of democracy, once democracy had been established. We are concerned here only with the efforts of the Fathers to prevent the rise of democracy in America.

The Economic Origin of American Democracy

Though the framers of the Constitution were ingenious in their efforts to save America from the doom of democratic government, an unanticipated economic force was to upset their calculations within a few years. Democratic government, however, was to come,

[1] Charles A. Beard and Mary R. Beard, *The Rise of American Civilization.*
[2] *Ibid.*

not as a result of political planning, but as a consequence of a redistribution of wealth in America. It was westward expansion that brought about the doom of oligarchic government, nationally and locally, in the United States. Westward expansion had begun before the Revolution. It had continued even during the Revolution; but in 1787 it began to spurt. It was at this time that the Congress, created by the Articles of Confederation, passed two ordinances, which were to speed up westward migration into a mighty torrent. Congress decreed that territories West of the Appalachians, when settled, should be admitted to the Union on a basis of equality with the thirteen original states. It also provided for government surveys of the land and established procedure so that settlers could obtain incontestable titles. A few years later Congress provided a territorial government for the Northwest Territory and Federal troops to keep the Indians from interfering with settlers. Through other acts, both under the Articles of Confederation and the Constitution, Congress arranged for the sale of public land in small tracts, at low prices and on liberal credit terms.[1] Within a little more than three decades from the time President Washington took his oath of office, nine new Commonwealths had been erected in the valley of the Mississippi (Kentucky, Tennessee, Ohio, Louisiana, Indiana, Mississippi, Illinois, Alabama and Missouri) and two on the outskirts of New England (Vermont and Maine). In this period, the population of the country multiplied nearly three times, and the western states soon had more population than all the original thirteen. This produced a sharp shift of political power from the East to the West. Most American presidents were henceforth to be citizens of these western states, and the reign of Virginia and Massachusetts was over.

[1]The land grabber appears in this early period of the colonization of the West, but his activities were generally self-defeating. Speculators who bought in large quantities found that they could not develop their holdings because of the lack of slave labor and the opportunity for genuine settlers to acquire freeholds from the government. They were forced to sell in small lots on reasonable terms to bona fide settlers and to compete with the low prices offered by the government. Thus in this early period, the common man with a desire to better his economic lot by going West got the breaks. The vicious practice of cornering land in violation of Federal laws which resulted in the creation of vast fortunes and the limiting of economic opportunity for the American people flourished as industry and technology made progress in American capitalism. Then ensued a sordid drama in which land grabbers unlawfully and ruthlessly reached out and seized millions and millions of acres of natural resources. It is in this later period that the counterpart of the Roman land grabber appears in America to loot thoroughly the American public domain.

The settlement of the West was conducted on an entirely different principle than that which had resulted in the concentration of land in Colonial America. It was settled by the man with the rifle and by families who possessed themselves of small tracts of land, ranging from sixty to one hundred sixty acres. For a long time in the West, there were no merchant princes, such as governed Philadelphia and Boston, no powerful land-owning class comparable to the masters of Hudson Valley manors.

There was established a social order without class distinction based on property, a society of people "substantially equal in worldly goods, deriving their livelihood from one prime source—labor with their own hands on the soil." This condition of relative economic equality immediately expressed itself politically in male suffrage. "Broadly speaking," says Beard, "all the new western states were democracies of free and equal white men."[1]

While democracy was rising rapidly in the West, the economic effect of westward migration was exerting a powerful and corrosive influence on the foundation of oligarchic government along the Atlantic seaboard. Eastern plutocrats were soon confronted with a shortage of labor on great estates, in fisheries and mills. Those who remained behind were in an advantageous position to bargain for political consideration. They could raise their wages by threatening to follow in the footsteps of the pioneers, and they were in a position to demand the right of suffrage. Within a short time, the whole

[1] *Ibid.* It should be pointed out, however, that while some of the new Western Commonwealths promptly declared for manhood suffrage, others did attach property qualifications to the rights to vote or to run for office. But even where such property qualifications were imposed they did not interfere with the creation of vigorous free governments. The restrictions on the suffrage usually required a voter or a candidate for office either to own a certain number of acres or to pay taxes. But land could be obtained so cheaply that the great majority of settlers had no difficulty qualifying to vote or to run for office. Even in Tennessee, where property restrictions on the suffrage were high in comparison with those of other states, the great majority of adult whites could vote or run for office. Thus, Charles and Mary Beard, in their *Rise of American Civilization,* say:

"It was, indeed, a poor and shiftless pioneer who could not obtain a freehold or become a tax payer; in fact, it was not very difficult to secure the 500 acres fixed as the economic qualification for Governor of Tennessee."

Here again we have another parallel with the emergence of free government in ancient Rome. The reader will recall that the Peasant State attached property qualifications to the suffrage, but since practically all adult Romans had enough land to meet them, their existence did not interfere with the functioning of a vigorous free government in which the rule of the majority expressed itself.

Atlantic seaboard was in the grip of a democratic revolution. Some states, like Virginia and North Carolina, held out against this tide of democratic reform for a number of years; but eventually they, too, succumbed.

Not only did westward migration initiate manhood suffrage and assure its triumph in the nation as a whole; but it was in the West that undemocratic features of the national Constitution were first attacked and finally demolished. The oligarchic principle for selecting the president by vote of electors elected by state legislatures was battered down; and henceforth, the chief executive of the nation was to be chosen by the people. The equally oligarchic principle of nominating candidates for the presidency by Congressional caucus was abolished, and nominating conventions, composed directly of representatives of the people, were instituted.

The redistribution of wealth in America caused by westward migration was to endure until the beginning of the Civil War. For many years, there existed in America an agricultural capitalism, in which wealth and economic power were, on the whole, fairly widely diffused. There were to be sharp political conflicts between sections of the country over economic issues, but there was to be an almost complete absence of any agitation by the poor against the rich. During this period, America was, in many respects, much like the great Peasant State of Rome, in that every able-bodied man willing to work could find a livelihood.

Lord Bryce, the British scholar, who made an exhaustive study of American history, wrote that in this period there were "no great fortunes in America, few large ones, and no poverty."[1]

Outside of a few large cities, America was a series of small towns, each of which did the manufacturing for an agricultural region and obtained its subsistence through exchanging "rude for manufactured products." Adam Smith describes this natural growth of manufacturing and trade which springs up in agricultural regions:

> Without the existence of some artificers, the cultivation of the land cannot be carried on but with great inconvenience and continual interruption. Smiths, carpenters, wheelwrights and plowwrights, masons and bricklayers, tinners, shoemakers, and tailors are people whose services the farmer has frequent occasion for. Such artificers too stand, occasionally,

[1]James Bryce, *The American Commonwealth,* Volume II, page 811.

in need of the assistance of one another; and as their residence is not, like that of the farmer, necessarily tied down to a precise spot, they naturally settle in the neighbourhood of one another, and thus form a small town or village. The butcher, the brewer, and the baker, soon join them, together with many other artificers and retailers, necessary or useful for supplying their occasional wants, and who contribute still further to augment the town.[1]

In the typical American town of this period, there was a dusty flour mill, turned by a creaking waterwheel; there was a wheelwright's shop, perhaps a chair factory, a pottery or a tinsmith. There was also the ubiquitous blacksmith, who shod horses and made tools for the farms and households. There might also be a saddlery and a tannery, or a baker or two. On the farm itself were located many industries which would eventually be moved into town. There was the industry of preserving food, the great canning industry, which was at that time under the province of the housewife; the spinning and weaving of cloth, and the making of soap.[2]

In this period we do not find either state governments or the Federal government making a conscious attempt to promote economic equality, as occurred in the history of Rome. But this end was achieved because of the vastness of the national domain. Those who lost out in the economic battle were able to stake themselves off again quickly by moving a little further west. Thus, democracy constantly recruited its strength by pushing westward.

SECOND PERIOD OF AMERICAN DEMOCRACY

The second period of American democracy opens with the Civil War. It closes as ticker tape overflows the baskets of bewildered Wall Street brokers and the greatest depression in the history of America begins. What went on in America during this period is recorded in numerous investigations conducted by governmental authorities and reputable private research organizations, in hundreds of books and thousands of magazine articles. It has been told and retold so many times by dispassionate scholars that there can be no reasonable doubt as to what transpired. Our purpose here is to highlight this period—to sketch in with broad strokes certain trends

[1]Adam Smith, *The Wealth of Nations.*
[2]Mark Sullivan, *Our Times.*

without attempting to introduce extensive sources which would confirm them in detail.

Disappearance of Agrarian Capitalism

Before the Civil War the economic life of the nation had been conducted in an economic system which in a previous chapter we have called Agrarian Capitalism. The principal industry had been agriculture and nine out of ten persons had been engaged in agricultural work. The basic characteristic of this agrarian capitalism had been the relative self-sufficiency of farm life. After the Civil War industrial capitalism comes in with a rush and the self-sufficient nature of agriculture disappears. A whole flock of industries migrate from the farm homestead to factories. Farming becomes highly specialized. The farmer now sells his crops for cash and with that cash buys many things formerly fabricated on the farm. No longer could the farmer build simple farm implements with his own labor and that of farm laborers who had been paid in farm produce. He had to lay aside his simple scythe and cradle which had cost but a few dollars at the most and which had lasted a lifetime, to buy in its place a mechanical binder which cost twenty times as much, was in constant need of repair and wore out in three or four years

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THE PARALLEL

Rome: The second period of Roman democracy extended from the second Punic War (201 B.C.) to the great business depression which Julius Caesar found confronting his administration when he became Consul in 49 B.C.

In this period the Roman economy, which had been predominantly agricultural, is transformed into one predominantly industrial and commercial. The transition from agriculture to industry is accompanied by the development of numerous high-powered and predatory techniques for concentrating wealth An extreme concentration of wealth completely effaces the condition of relative economic equality among the Roman people, which had brought democratic government into existence under the Peasant State.

The concentration of wealth which ensues has three well-defined effects upon Roman life in this period:

Economic Effect

The capacity of Roman capitalism to furnish employment to the people is shattered though this result is temporarily concealed by the infusion of streams of new income into the economic system from war booty. The growing dependence of the poorer classes on government grain indicates the growth of economic crisis—the ultimate dependency of the economic system on government spending as the sources of war booty dry up.

Sociological Effect

Under the Peasant State population had been dispersed throughout the Italian peninsula. The Roman Commonwealth had consisted of a few towns of which Rome was the largest, many villages, and a large farm population.

of hard usage. The farmer became an integral part of a monetary price system which swept on until it governed all economic activity.

Industrialization of America

Between 1860 and 1929 America shifts over from an economy predominantly agricultural to one highly industrialized. At the end of the period one person in four gainfully employed is engaged in agricultural work. The transition from agriculture to industry opens up a stupendous human drama. Hundreds of Ragged Dicks and Tattered Toms developed a Midas touch. Everywhere millions were at the call of daring men, and from its earliest history America had been populated with people who had taken a chance—usually a tremendous chance. The boy who made good became the ideal of American youth. Never before in the history of the world did so many poor boys rise from obscurity to dazzling heights of opulence. Starting on bankrupt farms, in city slums, at the end of the trail of romance, they lived in palaces and dictated the policies of vast industrial empires.

At the end of the Civil War America was a land abounding in fabulous opportunities to develop oil and water power, coal and iron, gold and timber, wheat and cotton. Within a few decades resolute men made America the richest and most powerful nation in the world. Twenty-five years after the death of Lincoln the United States was the first manufacturing nation of the globe. In 1870 the

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Rome was like the provincial capital of an American western state in the early part of the twentieth century—more a town than a city.

As wealth concentrates in the economy a healthy and democratic countryside is largely transplanted to growing cities and submerged in slums. Rome becomes a large city with great slum areas.

Political Effect

Democracy decays in the Roman state. The control of government passes from the hands of sturdy farmers and small artisans into the hands of a small number of wealthy families. In substance, oligarchical government is substituted for the democracy of the Peasant State. Reformers appear to battle against the engulfing tide of plutocracy—Roman Bryans, La Follettes and Wilsons—but their efforts are unsuccessful. Plutocracy invariably ousts the reformers, scuttles their reforms and clears the way for further exploitation of the economic system. Its lever of political control is the political machine. Political bosses—Roman Quays and Crokers—appear to develop powerful political machines which are hired out to the highest bidder—plutocratic interests. Under government controlled by wealth the exploitation of the economic system proceeds to its logical end. The economic foundation of political liberty is destroyed—the capacity of private enterprise to furnish employment to the people. The stage is set for dictatorship generated through government spending.

output of American iron and steel—the measure of modern industrial power—had been far below the tonnage of England or France. In twenty years alone America had outstripped these rivals and was pouring from her forges more than one-third of the world's total annual supply.

At the end of the second period of American democracy half of the total production of wealth in the world was made and used by the people of America. All the figures that told of the wealth of America were in millions, or thousands of millions, or in millions of millions. In one year, for instance, the United States brought out of the earth nine hundred million barrels of oil. All the rest of the world had only five hundred million. The waterfalls of the United States could develop forty-three million horsepower. Norway and Sweden and all Russia together did not have as much. America had within her borders billions of tons of coal still unmined—five-eighths of all the coal in the world. Europe, altogether, had only a tenth as much. America used one-half of all the energy used by the whole human race, from coal, oil, gas and water power. America owned nearly half of all the iron ore in the world, and in 1929 we made nearly one-half of all the iron and steel.

The United States had two hundred forty thousand miles of railway and three million miles of roads—one-third of all the highways in the world. It had twenty-five million automobiles—all the rest of of the world had only ten million. It had seventeen million telephones—all the rest of the world had only fifteen million. In all Europe there were only two corporations with gross incomes of over twenty-five million dollars a year. In America there were more than a hundred.

America became not only the land of the tallest office buildings in the world but a nation of vast and royal residences. These great mansions stand for the romance of America, El Dorado of the explorer's dreams, richer than the conquests of Pizarro, the richest country in the entire history of the world. The palatine mansions of Republican Rome had stood for a few tin mines in Cornwall, or a fleet of little galleys coasting along the Mediterranean or the pro-consulship of a tiny Balkan province. The massive palaces of America attempted in vain to picture the wealth behind them—a wealth beyond architecture, beyond calculation or understanding.

So much for the romance of America—the land of opportunity

that was to run out of capitalistic opportunity for millions of Americans after seven decades of furious and uncontrolled progress. Potentially in 1929 America was still a land of unrivaled opportunity for the common man. It had an abundance of all the raw ingredients —natural wealth, capital, managerial talent, intelligent labor and technology—to build a high level of capitalistic prosperity for the American people. But the capacity of the economic system—capitalism—to translate this potential abundance into reality had been shattered. A severe concentration of wealth had lodged within the economic system. This concentration, like the accumulation of excessive carbon in a motor, had contracted the natural productive powers of the system to a point where private enterprise had become unable to furnish employment to millions. The economic system had collapsed in government spending on a large scale, and free government in America had been brought face to face with the same crisis that had annihilated Roman democracy.

Concentration of Wealth

A fortune of twenty-five thousand dollars had been notable in Colonial America. In 1857 Moses Beach wrote that there were twenty-seven millionaires in the country. In the period which preceded the Civil War, Lord Bryce had observed the existence of these few large fortunes. Then came the industrialization of the nation and the harvest time for vigorous men who knew how to get ahead of the crowd. The age of millionaires was forgotten and the age of the hundred-million-dollar man came in with a rush. Within a few decades after Appomattox, America had the richest man and the wealthiest business woman in the world—William H. Vanderbilt and Hetty Green. Lord Bryce, contrasting America before the War between the States with the America he examined closely at the end of the nineteenth century, reported:

> Now there is some poverty (though only in a few places can it be called pauperism), there are many large fortunes and a greater number of gigantic fortunes than in any other country in the world.[1]

The growing concentration of wealth at the time of Bryce's observation was, however, only a vigorous beginning. During the twentieth century this growing concentration was subjected to more

[1] James Bryce, *The American Commonwealth*, Volume II, page 811.

exact and careful examination through improvement in government statistics, the inauguration of a Federal income and estate tax, governmental and private surveys. A voluminous and reputable amount of data indicated clearly and uniformly that most of the wealth of the nation had been aggregated in a few families.

Three aspects of this growth of concentrated wealth should be observed. Each becomes a factor in the destruction of productive power in the economic system. Their combined effect is to make capitalism in the United States, short of reform, unworkable.

Over-all Concentration of Wealth

The growth of concentrated wealth in general causes an increasing concentration of income in the economic system. In 1929—the year of greatest national income in the history of the nation—one-tenth of one per cent (some thirty-six thousand families) of all families in the United States (more than twenty-seven million) receive as much income as 42 per cent of the total number of families at the lower end of the income scale (some eleven million families).[1] The increasing concentration of income produces an increasing amount of annual savings seeking sound investment outlets.

Concentration of Wealth in Industry

For several decades after the Civil War a dominant characteristic of industry is the existence of numerous concerns in practically every field of industrial activity. This numerousness of industrial concerns represents a diffusion of industrial ownership. By 1900 this condition has been materially altered. By 1929 it has been drastically altered. Production in many fields of industrial enterprise has become concentrated in a few giant corporations. For industry as a whole a few giant corporations account for the bulk of all production, hire a large percentage of all wage earners in industry, own a high percentage of all facilities devoted to manufacturing and take in a high percentage of all industrial income. The small number of giant corporations dominating American industry are largely owned by a small number of families who receive the great bulk of all industrial dividends.[2]

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[1] *America's Capacity to Consume,* published by the Brookings Institution.

[2] The actual control, however, of these giant corporations, representing a severe concentration of wealth and economic power, is in the hands of still

Concentrated Control of Credit

Before the Civil War and for a short time after it the raising of capital for business enterprise is largely a local affair. The unit of business enterprise is the partnership; business is confined to local markets and the scale of business operation does not require large sums. A new enterprise is financed by local business men who are frequently friends of the promoter of a new idea. This source of capital is occasionally supplemented by loans from local bankers.

After the Civil War national markets are developed, improved technology increases the cost of industrial equipment, the scale of business operations under the corporate device expands. The resources of local communities become inadequate to supply the capital needs of the new economic order. To meet this need, a financial system, nation-wide and increasingly complex, comes into existence.

Capital is now collected in definite reservoirs—in commercial and savings banks, in insurance companies, in trust companies and nonfinancial corporations. A financial specialist appears to bring together those in need of capital with the financial institutions which have capital to invest. This specialist is the investment banker. In the new economic order capital is raised through the sale of stocks and bonds. The legitimate service of the investment banker is to pass on the soundness of the new ideas and then to locate investment funds in many communities and institutions, so as to bring promoters and investors together.

So long as the sources of capital—banks, insurance companies, trust companies and nonfinancial corporations—were competitive in their quest for investment opportunities, and so long as investment bankers acted competitively to appraise requests for capital on the basis of whether a business was likely to prosper competitively and reward investors, the new financial order represented genuine economic progress.

By 1911 it was common knowledge among informed people that the new financial order had been perverted from its alleged purpose

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fewer persons—interlocking officers and directors. In ancient capitalism a business was owned either by an individual or by several individuals organized as a partnership. Under these forms of the business unit (*i.e.*, the individual proprietorship or partnership) the owner or owners of a business also controlled it. With the development of the modern corporation, ownership and control have become separated. In many giant corporations the officers and directors, who actually control them, have a negligible ownership interest.

of administering more efficiently to the legitimate capital needs of business enterprise. In that year Woodrow Wilson, then Governor of New Jersey, charged that a ruthless and concentrated control of credit in the nation had been established. Said Wilson:

> The great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. This is the greatest question of all; and to this, statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men.[1]

One year later—1912—a Committee of the national legislature, known as the Pujo Committee, investigated the existence of a money monopoly. It found that Governor Wilson had neither talked through his hat nor exaggerated the situation. Said the Committee in its report:

> Far more dangerous than all that has happened to us in the past through the elimination of competition in industry is the *control of credit*.[2]

How had a money monopoly been achieved? A concentrated control over the major sources of credit had been accomplished through the creation of large commercial and savings banks, insurance companies, trust companies and nonfinancial corporations. The creation of these large units had been achieved through the processes of merger and combination. In their creation investment bankers had assumed a directing role. For this work they had received billions in underwriting commissions that had frequently been fantastically exorbitant. A concentration in the investment banking business itself had also occurred. The great bulk of this business was transacted by a few powerful houses. Competition between these dominant firms had ceased. They had divided up among themselves the business of providing the nation's business with capital and from their decisions there was no appeal. Through the corporate device of interlocking directorships these few investments had become tightly interlocked with the few banks, insurance companies, trust companies and nonfinancial corporations which had under their control

[1] Quoted by Louis D. Brandeis in *Other People's Money*, page 1.
[2] *Ibid.*, page 2.

the bulk of the nation's capital to invest. The sources of capital had ceased to compete for investment opportunities. The whole process of investment had become subjected to an arbitrary control. With the establishment of this control, capital was used not to promote the expansion of production in the economic system but to suppress production. It was used to buy out competitors in business, to substitute monopoly for competition, and to protect monopoly from the menace of new competitors who could come into existence only by obtaining capital.

The control of capital was also used to exploit capital itself—to siphon off into the pockets of the controllers of capital riches gained by robbing investors. Worthless securities were marketed in bales. Security values were manipulated on stock exchanges to the profit of insiders. Corporations were loaded with debt—debt often created to enable insiders to sell property owned by them which they had deliberately overvalued. In addition, the exploiters would receive splendid underwriting commissions for raising the capital which was to be thus plundered. Handsome banking fees were charged for reorganizing corporations which had landed in bankruptcy from debt imposed by the same men who undertook their financial rehabilitation. Further booty flowed in by starting all over again new circles of debt and pillage with corporations as they emerged from reorganizational hospitals. These and other techniques were developed by the controllers of capital for the exploitation of capital.

Not all bankers engaged in these practices. Not all corporations were plundered into bankruptcy, nor all investments looted. But a sufficient amount of substantial financial hijacking did emerge to invest Wall Street with an odor which increasingly offended a public opinion, in revolt from the philosophy that uncontrolled private initiative in business would create the best of all possible worlds.

Seeds of Trouble

The concentrated control of capital initiated and consummated a concentration of wealth in industry through the creation of giant corporations.

Giant corporations fastened upon industry an expanding system of monopoly controls.

The growth of monopoly in industry destroyed productive power in the economic system and killed off sound investment outlets.

The mounting tide of annual savings caused by the increasing concentration of wealth in general was finally to become excessive in terms of available investment opportunities. A fatal jam in the investment mechanism of American capitalism was to occur which touched off the collapse of business in the great depression of 1929.

Methods of Wealth Concentration

The methods by which wealth is concentrated in this period are largely predatory in their nature. The transition from agriculture to industry in America is accompanied by the development of numerous techniques for exploiting industry, commerce and, above all, government. The history of early Greece and Rome is repeated in the land of Jefferson. Free initiative in business is frequently used to rob and plunder while democracy is controlled to protect that right.

A comprehensive library of government investigations during this period reposing either on the shelves of the Government Printing Office in Washington, or in the archives of state or municipal legislatures, leaves no room for even reasonable doubt that the concentration of wealth which occurred in America was the result of practices which represented graft in numerous forms. War profiteering, the looting of the national domain, monopoly, usury, the control of credit, excessive tariffs, political corruption, rigged stock markets and produce exchanges, watered stock, manipulation of corporations and other tricks of financial thimble-rigging, adulterated commodities, patent-medicine fakery, dishonest advertisements, were only some of the techniques employed. Any detailed account of the gross and refined forms of graft which flourished in this period would consume too many pages.

With the ethics of the men who concentrated wealth in America from 1860 to 1929 we have no concern. It is the end result of the philosophy of economic development which these men practiced that is important. The development of America through the exploitation of industry, commerce and government, though it produced for a time more economic progress than had ever been seen before in the world, was an unsound development, certain to come to an end and to precipitate the problem of saving free government in America from destruction.

The freebooters who lifted America to the pinnacle of economic

power in the world were not a group of devils who deliberately set out to rob a nation of angels. Actually they were the few survivors of an era of jungle warfare in which countless others had failed to land the same prizes by attempting the same practices. They were the product of economic *mores* which often made predation a matter of necessity unless for righteousness' sake one was willing to let his neighbors do to himself what he refrained from doing to them. It was often a case of plunder or be plundered.

Always in history the advent and early stages of industrial capitalism has meant the unfettered right of the individual to work out his economic destiny without interference from government. Wherever the progress of technology has brought a vigorous people to grips with a raw empire of natural wealth and opened up new sources of wealth through industrialization and commerce, a savage and brutal struggle to grab the new prizes has ensued. In this struggle government has played a passive role or sold its services for a share of the booty, and generally with the approval of the common man. Dazzled by reports of unprecedented opulence the common people have embraced the idea that there is room for everyone to make good in a free-for-all and rule-less scramble for wealth. The conviction takes root and flourishes that money is the man and the making of it is the greatest of all private and civic virtues—no matter how brutal or shabby the means. In the second period of Roman democracy, Rome became the land of Rex Denarius, just as, in the second period of American democracy, America becomes the land of the Almighty Dollar.

It takes time for the mirage of plenty-for-all to turn into popular disillusionment—to be replaced by a reality of economic opportunity for the few and lack of it for the many. The vital idea that sustained and maximum economic progress for the masses in a free-enterprise economic system depends on government establishing and enforcing rules for the acquisition of wealth which will prevent business men from interfering with production, always appears late in the development of industrial capitalism. By the time unregulated individual initiative has generated enough abuses to dissipate the legend of a prize for all and stirred the people into efforts at reform, concentrated wealth has made sufficient progress to control the reform which is attempted.

Even the classical economists misunderstood the vital role of government if the growth of modern capitalism was to generate maximum prosperity for the masses. Having seen tyrannical governments, controlled by robber gangs, interfering with the free flow of trade, they jumped to the conclusion that that government is best which governs least. They envisioned capitalism as an economic system in which the motor—competition—was self-operating. Competition would be protected from conspiracies of business men to extinguish it by the element of human selfishness which would yield to the temptation to profit from price-fixing agreements by "chiseling" such agreements and causing their collapse. The self-operative nature of competition would preclude the emergence of dishonest or predatory business practices to any appreciable degree. The dishonest man would be selfishly exposed by the honest man and would lose the patronage of the public. Accordingly, the most just, the most orderly and the most successful business development would occur if government kept hands off, confining itself to hanging thieves and suppressing chiefs of backward countries that resisted economic penetration. This was the famous doctrine of *laissez-faire.*

The America of ante-bellum days was thoroughly steeped in this philosophy and it worked in an agrarian capitalism because of the relatively self-sufficient nature of agriculture. Exploitation of the individual on a large scale requires that the economic life of the individual be subjected to economic forces which lie beyond his individual control. Those who can get control of these forces and organize them to work in their interests possess the economic power to exploit on a large scale the productive efforts of others. The rise of industrial capitalism always exposes the economic life of the individual to outside control, and techniques quickly appear for levying toll on the productive efforts of the people as a whole.

Laissez-faire industrial capitalism was to prove as disastrous to the welfare of free government in America as it did to the welfare of free government in the second period of Roman democracy. It generated abuses. Abuses generated the idea that such abuses should be stopped by government regulation. But before the idea of government regulation emerged substantially and became a force to reckon with in American politics, a sufficient concentration of wealth had occurred in the economic system to prevent efforts at reform

from blocking, in the long run, the onward march of plutocracy and the ultimate collapse of capitalism in the United States. The damage had been done.

Economic Effect of Concentrated Wealth

As wealth concentrates in a capitalistic system there is a loss of productive power in the system. An increasing amount of production is systematically suppressed. This loss of production decreases employment opportunities. If wealth continues to concentrate, the loss of productive power will ultimately become so great that private business will become permanently unable to carry the employment load.

The volume of production in private business, operating under restrictions imposed on production by the economic and political power of concentrated wealth, will become insufficient to afford employment to a sizable part of the population. Unless the natural productive powers of the system are restored to vigor through reform of the system, the incapacity of private business to absorb the unemployed will continue indefinitely. Government spending on a large scale will become necessary to take care of the unemployed, and government spending will continue as long as the natural productive powers of the system remain repressed.

The rise of industrial capitalism in Rome did not impoverish the people at once. For a time it caused an expansion of production, enriched the variety of production, supplied improved products and raised the general level of economic welfare of the Roman people. But as wealth continued to concentrate in the economic system a point was reached when this progress could not be maintained. The productive power of Roman capitalism became unable to afford the people employment or to advance the general standard of living further.

The shattered productive power of Roman capitalism was for a time concealed by the minor devices of colonization, an increasing volume of public works, expanding distribution of public grain to the poor, and the major device of war booty. War booty continually infused for a time new buying power into the economic system. It continually stimulated production in a capitalistic system, which, without this stimulation after a certain point, would have collapsed in widespread and permanent unemployment.

The pump-priming consequence of war booty is particularly illustrated at the time of the conspiracy of Catiline. The depression in business, which had made Catiline's appeal to the proletariat so effective, was temporarily dissipated by the arrival of Pompey and his soldiers from the East, bringing with them millions of dollars of new buying power in the form of silver and gold.

Thus the stricken condition of Roman capitalism was not revealed until the stimulus of war booty lost its strength. As the sources of war booty became exhausted, Roman capitalism collapsed in government spending on a large scale and Roman democracy was prepared for liquidation.

Industrial capitalism in the United States for a time raised the standards of living for the people far higher than occurred in Rome. This greater productivity of American capitalism, in spite of a growing concentration of wealth, was due to two factors—the enormous natural wealth of the United States and the inventiveness of the people.

At the time of the Civil War, one-half of the America of today was still a wilderness teeming with fertile farm lands and vast natural resources. An area totaling more than a billion acres stretched from the Mississppi River to the Pacific Ocean. Within the geographical limits of this immense domain Republican Rome could have been comfortably tucked in a corner.

For half a century after the Civil War, this frontier continuously offers economic opportunity to families that have lost out in the struggle with the growth of plutocracy in the East. At the same time, the American people make more technological progress than has ever occurred in history. Industrial capitalism in the United States works with far better tools and far greater natural wealth than industrial capitalism in Rome. In spite, therefore, of a growing concentration of wealth, America is so vast a trade area and so rich in economic opportunity, that a record-breaking amount of economic progress for the people occurs before the concentration of wealth can bring it to an end. The increasing concentration of wealth prevents the production of billions of dollars of wealth, but free enterprise has so much vitality that it makes the American standard of living the highest in recorded history before wealth concentrates sufficiently to shackle its energies.

As in Rome, the ultimate shattering of the productive powers of

the economic system by the growth of concentrated wealth is also concealed for a time, but by another device. From the close of the Civil War to 1900, there is a continual expansion of production in the system. From 1900 to 1909, production fairly leaps forward. For the four-year period, 1910 through 1913, further increases in production are recorded, though the rate of increase declines perceptibly. The general and sustained expansion of production in the system between the close of the Civil War and 1913 is periodically interrupted by recessions in trade, but from each the economic system works itself clear on its own energies and with each recovery bounds forward to higher levels of production. Government spending as an antidote for depression is unknown and unnecessary.

In 1914, business activity begins to slump. Its decline is arrested by spending for war. The first World War greatly increases the concentration of wealth in the economic system. By 1921, spending for war has fallen off sharply, the economic system has been forced back on its own productive power, and immediately business goes into a nose dive. Suddenly its downward trend is reversed. From 1921 to 1929, there is a continuous expansion of business. In 1929, the national income is the largest in the history of American capitalism.

Yet even in 1929 the accumulation of unused capacity to produce in the economic system was clear and ominous. In 1929, gray iron foundries were operating at only 50 per cent capacity, steel casting foundries at only 67 per cent, cotton mills at 77 per cent, the shoe industry at 60 per cent, the flour industry at 40 per cent. These are only a few examples of the underproduction which existed in the system. The Brookings Institution made an exhaustive study of this unused productive capacity.[1] It reported that with no change in existing plants, labor supply or business methods, the economic system was physically capable, in 1929, of increasing its over-all production 20 per cent. If this additional production had been carried through, it would have been enough to double the goods and services received by the poorer half of all families in the country in 1929—provided they could have been allowed to get it. The Brookings study was conservative in its conclusions. It did not count as "capacity" any plant that was entirely shut down during 1929—assuming all inactive factories to be junk. Actually, some of these factories were

[1]*America's Capacity to Produce,* Brookings Institution.

junk; others might have been operated if the market had been better. Another element of conservatism was the fact that the study took no account of any possible "modernization" or wider use of known improvements in technology, but was concerned with plants as they stood. Since many plants could have been improved if the system had been functioning soundly, one may reasonably conclude that the economic system could have increased production considerably more than 20 per cent. The findings of the Brookings Institution were confirmed by a group of sixty distinguished technical men who worked for nearly a year on the National Survey of Potential Product Capacity. No modernization of plant or introduction of new and untried processes was considered; but in the case of a few "bottlenecks" where the plant was found inadequate, the facilities for adding new plants were examined and found more than ample. The conclusion reached by this group was that if the economic system had been operated to maximum physical capacity in 1929, it could easily have given the people 50 per cent better incomes than they received.

To these analyses one crucial fact must now be added. The production level of 1929 was not the result of a sound expansion of business which might be interrupted by a depression from which the system would recover on its own productive powers to move forward to higher levels of production. It was production achieved and temporarily sustained by shabby devices of boom which were certain to exhaust themselves. But for the intervention of this boom, the severe increase in the concentration of wealth, which had resulted from the first World War, would have precipitated the depression of 1929 in 1921. An unsound and tremendous expansion of private credit prevented the collapse of the system in permanent depression and concealed for a time the stricken condition of American capitalism.

When the factor of boom is taken into account the moribund state of American capitalism is disclosed.

In 1929 the volume of sound production possible in the economic system, operating on its own productive powers and minus the stimulus of unsound credit was far less than the actual production level in 1929 and substantially below that of 1913.[1]

[1]National income is estimated to have been around thirty-five billion in 1913 (unofficial estimate of the U. S. Department of Commerce). Making

In Roman capitalism it is impossible to put a finger on a point of time when the system, without the stimulus of war booty, actually becomes incapable of sustaining employment or advancing further the general standard of living. The stimulus to production of war booty is so continually mixed up in the functioning of Roman capitalism that the fixing of such a point is not feasible.

In American capitalism, however, the complicating factor of war booty does not exist and it is possible to estimate approximately a point of time when the capacity of the system to sustain employment and advance the material welfare of the people reaches a peak. The year 1913 is, roughly, the last year when there is enough sound productive power left in the system to carry the employment load of the nation or to maintain the economic progress that has profited the people as a whole.[1]

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adjustments for the increase of population and the rise of prices, it can be estimated that an income of more than seventy-six billion would have been necessary in 1929 to have maintained the income progress achieved in 1913 (national income is a measure of productive power in a capitalistic system).

In 1929, national income is put at approximately eighty-three billion. In 1929, therefore, the economic system showed a net increase in national income of some seven billion. But since income was less concentrated in 1913 than it was in 1929, it is arguable that with thirty-five billion income the people of the United States were probably as well off as they were with eighty-three billion. When, however, the factor of an unsound expansion of credit is considered it is certain that the real capacity of the economic system to produce income in 1929 was substantially below that of 1913.

When the unsound expansion of private credit in the twenties had spent itself, the economic system immediately revealed this condition. It relapsed into a rate of production insufficient to afford employment to millions, while national income dropped from eighty-three billion to forty billion. A restoration of business confidence would drive national income up a few billions from this low point of forty billions, but the total amount of sound buying power left in the system would result in a volume of production that would leave millions jobless. This inadequacy of buying power might be covered up by a new injection of unsound private credit into the system or through government borrowing and spending But without such artificial stimuli, national income would be insufficient to sustain a volume of production which would avert widespread unemployment. Concentrated wealth had too firm a grip on the system to permit an increase in its productive power which would have absorbed the unemployed.

[1]At any stage in the life of a capitalistic system there is always a certain amount of sound productive power. Sound productive power is power that will operate automatically to create a certain volume of production without the intervention of factors temporarily stimulating production, such as an unsound expansion of private or public credit.

A soundly functioning capitalism generates a maximum amount of sound productive power. In a misfunctioning capitalism—one in which production is being suppressed—the restriction of production will decrease the amount of sound productive power in the system. But that amount will not decline to zero. A capitalistic system will never lose all capacity to produce. It will

Plight of the Farmer

Between 1860 and 1929, the prosperity of the farming class in America is destroyed. The destruction is not as violent as occurred in Rome, nor is the American farmer as impoverished as the Roman farmer. Nevertheless, the income of the farm class in America becomes the lowest in the land, and life on the farm far from inviting. Two-thirds of all farm houses have no basements. Four-fifths have no water piped into the house. Nine-tenths have no hot water. Almost nine-tenths have no electricity. The traditional independence of the farming class also becomes seriously affected. There is a sharp increase in farm tenancy. Farm ownership slips appreciably. There is a steady and disturbing increase in the number and size of farm mortgages.

The impoverishment of the farming class in this period registers the destruction of productive power in the economic system. Progress in a capitalistic system depends on the ability of agriculture and industry to exchange food and raw materials for manufactured products. The capacity of industry to expand soundly depends on the capacity of agriculture to buy more products from industry. As concentrated wealth restricts production in industry, the buying power of the farmer is automatically reduced. The possibilities of a sound growth of production in the system which would have continuously raised standards of living and sustained their increase are frustrated.

The destruction of the prosperity of the farmer has also another consequence. As excessive productive capacity piles up in the economic system, the American industrialist, like the Roman industrialist, unable to sell at home, begins a quest of buying power outside the United States. The idea gains momentum that international trade is the road to prosperity for American business. Those who grasp at this panacea do not perceive that concentrated wealth outside of the United States has destroyed buying power as effectively as it has destroyed it within the United States, and that international trade is not capable of producing any appreciable or sustained expansion of American business.

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never break down in a total cessation of production. Concentrating wealth will merely cause it to lose enough productive power to make it impossible for private business to sustain employment or to maintain the economic progress that has been realized.

Sociological Effect of Concentrated Wealth

The dispersion of population was an important factor in the vitality of Roman democracy in the Peasant State. The concentration of wealth in the second period of Roman democracy caused the "concentration of a pauper population in city slums" and "the denudation and desolation of the countryside."[1] When the Roman people became herded together in the slums of large cities, their degeneration was insured. The Roman proletariat, mentally and morally diseased from poverty, lost the virtues of unselfish patriotism which had made the democracy of the Peasant State such a vital force.

In a soundly functioning capitalism economic activity will tend to be dispersed and its dispersion will cause a dispersion of population. Localized industry can, in general, effect transportation economies and produce more efficiently than centralized industries serving much larger territories. When a capitalistic system, however, has been subjected to plutocratic control, economic activity will become concentrated and its concentration will cause a concentration of population. The congestion of population in a capitalistic system, such as occurred in Rome and the United States, is the result of the power of plutocracy to suppress production in the system and to dictate the location of industries arbitrarily. As the prosperity of the countryside has been blighted by this plutocratic control, a part of the rural population, either from necessity or in the hope of improving its economic condition, has migrated to the points of economic opportunity remaining in the system which have been determined by plutocracy. Some have succeeded but the great majority have landed in slums. Changing economic conditions will make the location of established industries inefficient and uneconomic but the power of plutocracy will successfully resist their dispersion.

In America concentrating wealth caused a concentration of population in giant cities and in a section of the nation. The relationship between this concentrated population and concentrating wealth is direct and unmistakable. Large corporations utilizing various methods of unfair competition (control of credit, manipulation of railroad freight rates, selling below cost, etc.) wipe out thousands of efficiently operated local industries. Small town life is progressively drained of economic power and population.

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[1]Henry Francis Pelham and Henry Stuart Jones in *Encyclopædia Britannica.*

Industrial activity is arbitrarily concentrated in the Northeastern part of the nation with an overflow into a few states of the Middle West. This concentration of industry is artificially maintained by the development of a system of discriminatory freight rates on the nation's railroads which compel the South and the West to be raw material areas, deny these regions the advantages of lower manufacturing costs which would have come from the development of local manufacturing, and deny the nation the advantage of a far greater dispersion of population and of less slums.

By 1930 a survey of *Fortune* magazine could state emphatically that America had the worst slums in the civilized world. In 1934, when he introduced the Federal Housing Act, Senator Wagner, drawing upon a number of reputable statistical sources, estimated that fifty million Americans were living under slum conditions which undermined health and morals. He said:

> Infant mortality in the worst slums is three times greater than in prosperous neighborhoods. In slums, three out of every four babies have rickets. The danger of tuberculosis is thirty times as great, crime is two and one-half times as great, juvenile delinquency, four times as great. Insanity is seven times as great and four times as many women are arrested.

The small, relatively self-contained community, which had been the backbone of American democracy in the first period of its history, has largely disappeared. Its loss would have been deplored by Woodrow Wilson, who in 1912 vigorously attacked the sociological consequences of concentrated wealth.

> In all that I may have to do in public affairs in the United States I am going to think of towns such as I have seen in Indiana, towns of the old American pattern, that own and operate their own industries hopefully and happily. My thought is going to be bent upon the multiplication of towns of that kind and the prevention of the concentration of industry in great cities so that towns that own themselves will be possible. You know what the vitality of America consists of. Its vitality does not lie in New York or in Chicago; it will not be sapped by anything that happens in St. Louis; the vitality of America lies in the brains, the energies, the enterprise of the people throughout the land . . . in the richness of the fields that stretch beyond the borders of the city.[1]

[1] Woodrow Wilson, *The New Freedom.*

Political Effect of Concentrated Wealth

Within a few decades after the Civil War, America becomes a land of millionaires, and the supreme direction of its economy passes from the hands of farmers and small business enterprisers to a few men who wield crushing economic power. The rulers of business and finance, to protect their interests from political attack and to keep the economy open for further exploitation, establish a control of government in the United States which extends from the Federal Government to State Legislatures and Governors, down to Municipal Councils and Mayors.

The directors of the economic system either sit in Legislatures, or in executive positions, or control public officials to whom they turn to provide laws in promotion of their interests, to prevent the passage of laws which threaten those interests, or to sabotage the administration of laws which popular effort has succeeded in enacting and whose enforcement would interfere with their freedom to exploit the economy. Democracy becomes the pliant instrument of business men and financiers who amass wealth by destroying the productive powers of American capitalism.

The story of the manipulation of legislators, cabinet officers, judges, governors, aldermen, land office and custom house officials, utility, railroad and shipping commissions, would be incredible if it were not so well attested. The methods by which government in the United States is constantly manipulated vary. At first the methods are crude—outright bribery of officials, admitting legislators to a share in business enterprises, putting officials on the pay-rolls of corporations. Later on more refined but equally effective techniques are used—campaign contributions, the purchase of political machines, the control of the press and magazines, dispensing business and business favors to the private law firms and private businesses of legislators, employing public officials who have served the interests of plutocracy at handsome salaries in industry and finance.

The plutocratic control of government which is established—the substitution in substance of oligarchical government for democracy—is not a completely perfect control. Some reform succeeds in part. The hours of the working day are reduced for labor, child labor is forbidden in some states, the working conditions of labor are improved, a Federal income tax is inaugurated though its enforce-

ment develops scandals of favoritism and large and unplugged holes for tax evasions by the wealthy. But these are minor victories when contrasted with the uniform success of concentrated wealth in beating down reforms which attempt to strike at the roots of the growing cancer of suppressed production, and the increasing concentration of income in the economic system.

Popular effort to prevent the spread of monopoly in industry, to make railroads and public utilities charge fair rates, to curb usury, the control of credit, the exploitation of investors, the concentration of wealth and economic power through the merging and combining of corporations, and the device of interlocking directors and other major attempts at reform, all end in failure. Concentrated wealth wins the battle to destroy capitalism in the United States in a walk-away.

The studied efforts of the Founding Fathers of the Constitution to save America from a rule of the people turns out to be a veritable triumph in the second period of American democracy. The ingenious system of checks and balances, on which they relied to frustrate the popular will, becomes a powerful weapon in the hands of concentrated wealth. Reform legislation, which successfully runs the gauntlet of plutocratic opposition in Congress, is either unenforced or emasculated of its content and purpose on the administrative side of government where plutocracy has the upper hand, or if Congress and the Executive fail to turn back the menace of reform, the Supreme Court, dominated by former attorneys for the interests of concentrated wealth, all too frequently steps into the breach and through judicial interpretation renders it impotent.

From the death of Lincoln to 1929, American politics does not have a single reform administration which is able to check even momentarily the increasing paralysis of the productive powers of the economic system by concentrating wealth. In a span of some sixty-four years the high office of President of the United States is occupied only twice by incumbents who offer any challenge to the maturing disease of concentrated wealth, and the reform efforts of both fall far short of a cure.

Theodore Roosevelt says some harsh and true things about the menace of concentrating wealth. At one time he declares his intention, "so far as can be done by legislation, to favor the diffusion . . . of wealth as will measurably avoid the extremes of swollen for-

tunes and grinding poverty." But the irrepressible Teddy, after making a few passes at monopoly—the largest single source of swollen fortunes—suddenly discovers virtue in the thing he has been attacking, draws a foolish distinction between good and bad monopolies, permits the United States Steel Corporation to absorb the Tennessee Iron and Steel Company—and monopoly marches on.

Woodrow Wilson delivers a few more blows. He perceives clearly the major device which has been employed to concentrate wealth in industry—the merging and combining of corporations—and persuades Congress to pass a law sharply curbing its use. He also induces Congress to pass a law which strikes partially at the concentrated control of credit—a law forbidding interlocking directors, officers or employees between member banks of the Federal Reserve System, banking associations, savings banks or trust companies. Wilson also successfully backs legislation to strengthen the laws against monopoly. The Federal Trade Commission is established with broad powers to investigate unfair or monopolistic practices in business and to supplement the activities of the Department of Justice in the prosecution of such offenders. But with regard to more important reforms needed to make anti-trust enforcement effective —adequate funds for enforcement and adequate penalties in the anti-monopoly laws—Doctor Wilson, the one President of the United States who comes into office with a masterful knowledge of the forces preventing production in private enterprise, is curiously passive.

With the plunging of the nation into the first World War, concentrated wealth multiplies its strength on war profits, and the challenge of Professor Wilson to plutocracy ceases. The economic prosecution of the war is entrusted to that very plutocracy, while Wilson the reformer tragically becomes Wilson the patron of concentrated wealth. After the defeat of the Democratic Party in 1920 and the death of Wilson a few years later, the wreckage of his reforms is cast up on the beach. The surviving leaders of his New Freedom—a gospel that had thrilled the common people—are found occupying high-paying positions on Wall Street; corporation lawyers and the Supreme Court have demolished his law against mergers;[1] that against interlocking directors has been administra-

[1]Wilson's law against mergers forbade one corporation engaged directly in commerce to acquire the stock of a competing corporation, or one cor-

tively drugged; while anti-trust enforcement has been choked by inadequate funds and the appointment of personnel hostile to its purpose. Concentrated wealth has regained its control of government and the menace of reform has been annihilated.

The control of democracy in this period by concentrated wealth is greatly facilitated by the organization of politics into a means of livelihood. Powerful political machines led by ruthless bosses appear. In the first period of American democracy there had been political machines, but generally they were conducted on a voluntary basis. They lacked the effective and minute organization and the overwhelming dominance of an unscrupulous profit motive which characterizes the political machine in the second period of American democracy. The political machine of this period is organized solely for the purpose of furnishing a livelihood or direct economic profit to those who serve in the ranks or lead it. The rise of this type of political machine makes it possible to hire votes effectively, and it is the wealthy class alone who can afford to do the hiring. Popular causes aiming at economic justice lack the means to fight successfully against the alliance of wealth and organizational politics.

The plutocratic control of government which arises in this period is vividly and accurately described by one Frederick Townsend Martin, himself a member of the guild of plutocrats. With charming irony Martin said:

> The class I represent cares nothing for politics. It matters not one iota what political party is in power or what President holds the reins of office. We are not politicians or public thinkers. We are the rich. We

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poration (a holding company) to acquire the stock of two or more competing corporations. Corporation lawyers promptly hit upon the idea of having corporations purchase not the *stock* but the assets of competing corporations. The Supreme Court recognized the evasion as legal and the merger statute of Wilson became a dead letter.

How effectively concentrated wealth has been able to control reform which struck at the roots of its power is graphically illustrated in the subsequent history of this statute. The device of purchasing assets made it a dead statute early in the twenties. Up to 1932 plutocracy had such a complete control of government that a plugging of the loophole in Wilson's dead law was impossible. Under the New Deal, when government was supposed to have been recaptured by the people, a number of attempts were made to put life into it. But up to the present hour these efforts have been without success. Hence for more than a quarter of a century the effort of President Wilson to control corporate mergers in the public interest—to curb the use of mergers to create, sustain and extend the range of monopoly in the economic system—has remained abortive. Under reactionary and professed liberal administrations alike, plutocracy has been sufficiently strong to beat down all attempts to take the powerful weapon of corporate mergers out of its hands.

own America. We got it, and we intend to keep it by throwing all the tremendous weight of our support, our influence, our money, our political connections, our purchased Senators, our hungry Congressmen, and our public speaking demagogues into the scale against any legislature, any political platform, or any Presidential campaign which threatens the integrity of our estate. The class I represent cares nothing for politics. In a single season a plutocratic leader hurled his influence and his money into the scale to elect a Republican Governor on the Pacific Coast and a Democratic Governor on the Atlantic Coast.[1]

At another time, this same Martin spoke with equal frankness about the plutocracy which had arisen in America. He said:

Plutocracy maintains itself either by force or fraud. In America it has maintained itself solely by fraud.

THIRD PERIOD OF AMERICAN DEMOCRACY

The third period of American democracy is still in progress. But the drift towards disaster has been unmistakable. The collapse of business in 1929 was not just another depression. It was one of those profound breakdowns in private business which, historically, have foreshadowed the destruction of democratic government by vote of the people and the transformation of an enfeebled capitalism into an authoritarian economy.

For three quarters of a century industrial capitalism in America had recovered from other depressions on its own power and without

[1]Frederick Townsend Martin, *The Passing of the Idle Rich.*

THE PARALLEL

Rome: The third and last period of Roman democracy begins with the profound depression in Roman capitalism which confronts the administration of Julius Cæsar from 49 B.C to 44 B.C. This depression coincides with a period in which there is a sharp and sustained decline in war booty. An exhausted Roman capitalism becomes dependent on public spending, but Cæsar runs low on funds. He plans to conquer Parthia to obtain money with which to turn the depression and establish his power on a firm basis, but is assassinated by Roman plutocracy on the eve of his departure for the campaign

The assassination of Cæsar precipitates a terrible Civil War followed by a foreign war of the Roman state against Antony. The effect of these wars is further to exhaust the remnant productive powers of Roman capitalism. With the return of peace the pre-war incapacity of private enterprise to furnish employment immediately reasserts itself. Octavius is able to find enough money to launch and sustain a vast program of public spending for the relief of the unemployed. Through public spending Octavius finally ends the life of Roman democracy. The empty forms of that democracy, however, linger on for many years.

assistance from the government. Large-scale government spending to create jobs and subsistence for the people had been unknown. The crash of business in 1929 was a different and far more serious depression. From that depression private business could not recover on its own power. The system had to be reformed so that its natural productive powers could be liberated. This job called for political leadership of the highest order. Without reform, capitalism in America would continue indefinitely to be dependent on large-scale government spending. Only through a sustained recovery of private business could the fatal pressure of government spending on American democracy be terminated. If such spending continued too long, democratic government in the United States would go the way of other democracies of the past.

From 1933 to 1939—the first six years of the New Deal—the inevitable consequences of lavish public spending, unaccompanied by the application of any sound program to free the productive powers of a broken-down capitalistic economy, displayed themselves on a virulent scale.

On the political front, a friend of the people held American democracy in the hollow of his hand. Invincible at the polls, he reduced the national legislature to all but an echo of his Octavian will. The secret of the New Deal's political invincibility was government spending. But the inconsistency of this alien function of government with a free democracy, its deadly effect on that freedom, aroused little apprehension among the masses. The Pied Piper from Hyde Park was piping an old and irresistible tune.

Ironically, the New Deal tightened up the Federal Corrupt Practices Acts, limiting the expenditures of Presidential candidates to a few paltry millions. Experience had demonstrated that if a candidate for the high office of President could spend too much money in a campaign, he could buy his election. The New Deal Executive in office, however, could spend billions in preparation for his candidacy to succeed himself, by passing out bureaucratic jobs, creating jobs through public works, handing out subsistence to millions of families with the dole, or recruiting the support of business interests which were the beneficiaries of government contracts. But his opponent in Presidential election years must beware of exceeding the legal limit of a few millions when he challenged the incumbent Goliath with his economic feather-duster.

On the economic front the depression continued unabated. The measures prescribed by the New Deal doctors for the recovery of private business not only failed to produce results; they aggravated the sickness of business. Only government spending prevented the economic system from disintegrating into chaos. In six years the New Deal had made no progress towards reducing the dependency of the economic system on government spending. So matters stood when the nation began to mobilize for war.

World War II did not change the pre-war dependency of capitalism on government spending in the United States. On the contrary, the late war has strengthened factors retarding the recovery of private business and increased that dependency. Today, in the first flush of peace, the pre-war incapacity of private business to carry the employment load on its own power is reasserting itself. The serious plight of the economic system may be obscured by the emergence of a transient boom. The high wages paid industrial workers during the war, the prosperity of the farming class created by subsidies and the pegging of agricultural prices at profitable levels, in the face of a huge government demand for food products paid for by government borrowing, will make available a sizeable reservoir of war savings owned by millions of families. A deferred demand for durable goods now unobtainable and other scarce articles may result in a temporary post-war boom and give rise to an active demand for labor in private business. Pent-up demands of this kind, however, will afford no basis for *permanent employment*. Once they are satisfied through the exhaustion of war savings, there is certain to be a drop in business activity. The critical phase of the post-war period will come when labor has to depend for employment "upon industries meeting current consumption demands" and minus the stimulus of war savings. At that point, private business will relapse into a rate of production determined by its capacity to produce under the restraints imposed on production by capital in the past and labor more recently. *That rate of production will immediately force private business back into the arms of government spending to avert chaos.*

In the post-war period the struggle to save democracy in America will enter its final phase. The outlook is definitely discouraging and alarming. Nowhere on the political horizon—either in the Democratic Party or the Republican Party—is there any evidence of lead-

ership which understands the nature of the crisis or the kind of remedies which must be applied if the battle to save democracy is to be won. The exact sequence of events which will record the destruction of American democracy by an authoritarian state in default of the right kind of political leadership cannot be foretold. A number of variations are possible, including a temporary boom in business and even a change in administration. But unless the productive powers of private business are released through the application of a sound program of reform to American capitalism, one fact will not vary. Private enterprise, come boom or change in administration, will be caught firmly in the toils of government spending. A broken-down capitalistic system in America, dependent on government spending, will not stand still. Inevitably it will drift towards an authoritarian economy.[1] In this drift our democracy, like a lusty tarpon with an iron hook of government spending firmly embedded in its jaw, may battle vigorously for a while. But in the end it will be reeled in. Twenty-five hundred years of history testify solemnly to the fact that no free government has been able to survive prolonged government spending.

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[1]Government spending necessarily creates formidable problems of how to obtain the funds for such spending and how to invest the funds so as to expand the production of necessities in the economic system for the benefit of the masses, while the masses still have political power. Government spending invested in public works or the military establishment causes a diversion of labor from the production of more desirable forms of wealth from the standpoint of the people (*i.e.*, clothes, shelter and food), to the production of less desirable forms of wealth—bridges, tunnels, public buildings, parks, guns, ammunition, etc. The result of this diversion of labor is to impose a greater strain on private industry to furnish basic necessities, not only for the labor engaged on public works projects and military enterprises, but for the bulk of the people working in private industry so that their standard of living may be improved. So long as the people have political power, government spending must function to improve their economic condition. Government spending, therefore, exposes government to an increasing temptation to control private industry so as to use labor to expand the production of basic necessities Ultimately, government cannot resist the temptation to secure a firm control of the economic system, and authoritarianism moves into complete being.

CHAPTER XI

ENGINEERING PRINCIPLES OF CAPITALISM

CAPITALISM in the United States has not failed in the sense that the system is no longer workable. It is true that the system has become unproductive, but that has not been the fault of the system. For nearly three-quarters of a century, the system has been systematically misoperated. Its unproductiveness today is the inevitable and natural consequence of that misoperation. The system is in need of sound repair. If that is done it will become capable of producing an amazing prosperity for the people of the United States.

A capitalistic system, like an automobile, is governed by definite engineering principles. Like an automobile, it can be misoperated. If an automobile is systematically misoperated, its motor will lose pulling power. Seventy-five years ago industrial capitalism in the United States was like a new automobile. Today, its motor has little producing power because the business men who sat behind the steering wheel of production misoperated the car to an almost unbelievable extent.

A capitalistic system, endowed with rich natural resources, will constantly increase production if soundly operated. The living standard of the people will rise continuously. Depressions will interrupt the progress of production. Unless business men can be made omniscient and mistakes in business judgment avoided, a capitalistic system cannot stay clear of temporary recessions in trade.

But a soundly operated capitalistic system will recover relatively quickly from such setbacks to production and push on to higher levels of output. The system will possess automatic and sturdy powers of self-recuperation. Mistakes in business judgment will be corrected by the automatic remedy of business failures, financial losses and a fall in prices which will increase buying power in the system.

The limits of production will be set by the supply of natural

resources and the capacity of technology to combat their exhaustion by more efficient methods of production or new sources. But even when higher costs of production caused by a decline in the fertility of natural resources can no longer be postponed, it is still possible for a capitalistic system to furnish relatively full employment to a free people and to sustain free government, though standards of living may drop.[1]

But if a capitalistic system is misoperated, it will lose productive power. For a time production may expand. But if the misoperation proceeds too far, the system will ultimately break down in permanent unemployment and standards of living frustrated, ***not by an exhaustion of natural resources,*** but by the suppression of productive power in the system. The system will then have no self-recuperative powers. It will remain broken down unless government is able to effect a legislative repair job which will remove the obstructions to production which have developed within the system.

Now no capitalistic system can be soundly operated without government's assuming and discharging the vital task of preventing business men from interfering with production. If government does not exercise vigilance to direct individual initiative in business into productive channels, business men will be *free* to misoperate the system and its misoperation will be insured. Unfortunately, the misoperation of a capitalistic system pays handsome rewards to those

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[1]The criticism of capitalism by radical thinkers, such as Karl Marx, that the system is inexorably self-destructive because of inherent defects, is not borne out by the weight of economic opinion According to Marx, profits and interest were exploitative incomes *per se.* Only wages were a just income. The existence of profits and interest guaranteed a concentration of wealth which would ultimately destroy a capitalistic system. Concentrated wealth would finally reach a stage where the excessive incomes of the rich could no longer be invested and where the impoverishment of the people would become so great that business would run out of customers. The system would then explode in permanent unemployment.

Today we know that profits and interest are not exploitative incomes *per se* and that their existence does not guarantee a concentration of wealth which will destroy the system. Such incomes, however, may become exploitative. Where profits are made by suppressing competition, or where the rate of interest is fixed by agreement among lenders, profits and interest will contribute effectively to a concentration of wealth which will ultimately destroy a capitalistic system. But the destruction of capitalism will then be caused not by the existence of any inherent flaw in it, but by its misoperation.

Today we also know that even wages can become an exploitative income. Through collective bargaining wages can be pushed so high in industries as to result in a restriction of production in a capitalistic system and materially assist in the eventual collapse of the system in suppressed production

who are able to misoperate it. More money can be made in such an economy by stopping production than by allowing it to proceed. But the riches of the few gained in this way ultimately cause the wreck of the system itself.

In this chapter it is proposed to examine in broad outline some fundamental engineering principles which govern the achievement and maintenance of full production in a capitalistic system. Only as these principles are grasped will it be possible to understand how seriously capitalism has been misoperated in the United States, or to propose a program for releasing the productive power which has been suppressed in the system.

MUTUAL DEPENDENCE OF AGRICULTURE AND INDUSTRY

A capitalistic economy is divided into two basic production regions which are mutually dependent—agriculture[1] and industry. The vital dependence of each of these regions on the other was clearly stated by Adam Smith:

> The great commerce of every civilized society is that carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured produce, either immediately or through the intervention of money or some sort of paper which represents money. The country supplies the town with the means of subsistence, and the materials of manufacture. The town repays this supply by sending back a part of the manufactured produce to the inhabitants of the country.[2]

Now the prosperity of the town is intimately bound up with the prosperity of the countryside. There can be no sound expansion of industry unless industry can obtain from agriculture more raw materials and pay for them. Payment necessarily has to be made in manufactured goods and hence the capacity of industry to expand production is dependent on the capacity of agriculture to buy more manufactured goods. Conversely an expansion of agricultural production is dependent on the capacity of industry to buy more food and raw materials. This condition, too, was observed by Adam Smith:

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[1]Under agriculture are included mining and all extractive industries.
[2]Adam Smith, *The Wealth of Nations.*

The quantity of finished work which they (the inhabitants of the town) sell to the inhabitants of the country, necessarily regulates the quantity of the materials and provisions which they buy. Neither their employment nor subsistence, therefore, can augment but in proportion to the augmentation of demand from the country for finished work.[1]

We can now formulate one of the fundamental principles determining maximum production in a capitalistic system. Before stating it, however, two phases of full production must be distinguished. A capitalistic system with existing plant equipment, existing methods of production, and the existing labor supply may be able to turn out more goods and services than are actually being produced. Thus one phase of maximum production relates to achieving the fullest use of existing productive power. The other phase relates to securing the fullest possible growth of physical productive power. If all existing production equipment has been utilized to the fullest degree in a capitalistic system, more production can be attained by either *increasing the quantity* of existing production equipment, or by *substituting for existing production equipment* new and better equip-

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[1]This passage from *The Wealth of Nations* throws a broad beam of illumination on the past. The capacity of industry to expand in a capitalistic system depends on the capacity of agriculture to buy at least a part of the increased industrial production. If the purchasing power of agriculture is reduced, industrial production will also be contracted. A boom may temporarily expand the output of industry, but when the unsound purchasing power that initiated the boom is spent, production in industry will decline to a point where it can be sustained by the purchasing power existing in agriculture. In ancient Athens the exhaustion of agricultural buying power in the domestic economy operated automatically to restrict industrial production. The natural capacity of Athenian capitalism to produce was in consequence contracted and this contraction culminated naturally in unemployment and poverty for the people. In ancient Rome, the same vicious cycle was repeated. The destruction of agricultural buying power immediately reacted on the capacity of industry to produce. An over-all contraction of production in Roman capitalism was inevitable, a contraction that caused widespread unemployment and poverty. The attempts of Athenian and Roman industry to expand in foreign markets was *frustrated by the same basic economic condition that prevented their expansion in their home markets—the low buying power of agriculture outside of Attica and the Italian peninsula.* In eighteenth-century France, we saw an expansion of industry brought about by technological progress which lowered the cost of manufactured products, coming to an abrupt termination when agricultural buying power was reduced. The destruction of agricultural buying power in American capitalism ultimately contracted production in the system to such a degree that the system, operating on its own income power, could no longer furnish the people with reasonable employment. History amply confirms the conclusion that capitalistic systems invariably founder on reefs of low purchasing power in agriculture.

ment which will reduce costs of production, or by ***building new industries*** which will turn out new products.

THE LEVEL OF PRICES

Maximum production in a capitalistic system with existing plant equipment, existing methods of production and the existing labor supply can be achieved only if the buying power of agriculture and industry is kept at a maximum. The maintenance of maximum buying power in agriculture and industry will result in a maximum exchange of goods and services between these two production regions. The maintenance of maximum buying power in agriculture and industry in turn depends on ***the level of agricultural and industrial prices existing in the system.*** In a capitalistic system, at any point of time, there is always a certain amount of purchasing power. This purchasing power will be *expanded* or *contracted* by the movement of prices. Let us assume a hypothetical illustration to drive home this important point. Suppose prices in a capitalistic system were doubled (we here assume that the doubling is accomplished by conspiracies of business men and farmers without the intervention of any factor legitimately increasing cost). The existing buying power in the system could then buy in the aggregate only one-half the volume of goods and services that had been previously purchasable. If the doubled prices continued, production in the system would ultimately have to be reduced by one-half, since this would be all the existing purchasing power could consume. Conversely, if prices could be reduced by one-half (we here assume the reduction in prices to be caused by improved technology which has cut production costs), the existing purchasing power would be able to buy twice as many goods and services as were being offered on the market. If the halving of such prices continued, production in the system would ultimately be doubled, and standards of living would increase by one hundred per cent.[1]

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[1]The effect of prices upon production is so important that some illustrations from practical business will be of value. In 1920 the Regal Shoe Company had 2500 styles of shoes which sold at an average price of $10.46 per pair. In 1923 the company cut its styles to 100, thereby effecting large economies in its operating costs. Because of these economies the company was able to put a standard selling price of only $6.60 on its shoes. The result was that the company *doubled* the number of shoes it sold and *increased* its profits.

The development of the automobile industry is a shining example of how

Now if prices are ***too high*** in industry, the buying power of agriculture will be reduced and less production will take place in a capitalistic system. Similarly, if prices are too high in agriculture, the buying power of industry will fall and total production will be reduced. If prices in both industry and agriculture are too high the system will get a double dose of lessened production. Conversely, if prices are *too low* in either industry or agriculture the result will be less production in the system. Prices too low will force out of production factories or farms and thereby reduce production in the system as a whole.

By what method can prices in agriculture and industry be kept at a level which will result in a maximum exchange of goods and services and maximum production in the economic system? The answer is that if prices are determined by free and fair competition that level will be achieved. Adam Smith refers to prices established by competition as ***natural prices.*** A natural price is always a *fair price.* A natural price brings into a competitive market the ***maximum supply of a product*** while at the same time affording to the highest cost producer the minimum compensation which he will take rather than ***withdraw from production.*** Smith pointed out that though prices under free competition are continually "gravitating towards their natural prices" there may be deviations in their behavior. Producers may misjudge their market and produce too much. The consequence of this will be a price below the natural one, a price which some sellers cannot afford to take and stay in business. Such a price will cause business failures, but such failures will cause a reduction in the supply. Price will consequently tend to rise towards its natural level. On the other hand, a sudden increase in demand for a particular commodity may cause its price to rise a good deal above its natural price. Under conditions of free competition, however, this will either cause producers to expand their production or new producers to enter the field. The effect of this increased supply will be to drive the price downwards towards its natural price.

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markets can be broadened and production expanded enormously through the medium of reducing prices. Because of the competitive philosophy of Henry Ford, the automobile industry has persistently reduced prices and improved the quality of its product. In consequence millions—and not just thousands—of Americans have been able to own automobiles while the industry has paid high wages to labor and enjoyed one of the most profitable earnings records in American industry.

The oscillations of individual prices above or below their natural levels cannot be helped in a competitive order. Since sellers are not omniscient and cannot predict their markets with unerring accuracy, periods of temporary overproduction are unavoidable. Changes in demand, on the other hand, are the basis of consumer freedom, and without such freedom a valuable virtue of capitalism would be lost. In an autocratic economic system, the consumer does not enjoy the right to make production serve his desires. He is arbitrarily assigned the goods he consumes and has nothing to say about what kind or quality they shall be. Deviations from natural price are inherent in the competitive process and could not be dispensed with except by abandoning competition as the regulator of prices and substituting an autocratic economic system.

UNNATURAL PRICES

Deviations from natural prices do occur in a capitalistic system, however, which are not inherent in the competitive process. We may call such prices "unnatural prices." These deviations are always above the level of natural prices and, once established, they tend to persist in a capitalistic economy for long periods of time. Unnatural prices are created when business men are able to eliminate competition in industries. When competition has been eliminated in an industry, the result is monopoly. Monopoly prices yield *higher profits to business men than could be realized under competition* and hence business men are under a constant temptation to suppress competition and raise prices. More than a century and a half ago, when modern capitalism was in its infancy, Adam Smith observed the eagerness of business men to destroy competition:

> Men of the same trade seldom meet together but that the conversation ends in a conspiracy against the public interest or in some contrivance to raise prices.[1]

Though business men profit from monopoly, its other effect is to contract production in a capitalistic economy. This contraction of production necessarily reduces employment opportunities and makes the living standard of the masses lower than it would be under conditions of full production.

The *loss* of production in a capitalistic system caused by the emer-

[1] Adam Smith, *The Wealth of Nations.*

gence of unnatural prices is obvious. It is impossible to raise a price above its natural level for any considerable period of time in a capitalistic system without at the same time reducing the supply of the product. In general, if a monopolist tried to raise the price of a product and at the same time continued to turn out the same supply, he would quickly find that he could not dispose of all of his product. In order to dispose of all of his product, he would have to lower the price of his product and lower it to the level at which it had existed under competition.[1] The dictum of Adam Smith on this point is completely sound:

> Monopolists by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price and raise their emoluments [profits]. . . . The price of monopoly is upon every occasion the highest which can be got. . . . The natural price, or the price of free competition, on the contrary, is the lowest which can be taken.[2]

PUBLIC UTILITIES

In the early days of industrial capitalism in the United States, competition was relied on to be the chief regulator of trade. This vital function of competition was ultimately recognized by government. The Federal Anti-Trust laws forbade business men to eliminate competition and decreed that business activity must be planned by the operation of competitive forces. In the development of capitalism, however, certain spheres of business activity were found unsuitable for regulation by competition. In these spheres competition was abandoned and a condition of monopoly was created by

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[1]In the case of some commodities for which the demand is characterized as relatively inelastic by the economists, the decline of production in a capitalistic system is less obvious under conditions of monopoly. There are some commodities, such as milk, which are so indispensable to life that the price of them may be raised without causing less demand for them. In the case of such products the monopolist can raise the price without curtailing the supply. Consumers will continue to buy the same quantity at a higher price, but when consumers do this they are forced to buy *less of other products* since they must economize on their total buying in order to be able to pay more for the product they must have. This causes a falling off of demand for other products, and a falling off of demand for these products will cause a decline in the production of them. Thus less production results in the system even though under exceptional conditions the monopolist may be able to raise the price without curtailing his supply.

[2]*Ibid.*

permission of government. Industries receiving special dispensations from government which exempted them from operating on a competitive basis were called "natural monopolies." Public utilities constitute today an area of business activity which has been closed to competitive enterprise. This area, it should be stressed, has never constituted more than a small sector of total business in the United States. The reasons why competition was excluded from this sector need not concern us here. What is of importance is the fact that public utilities presented a serious problem in price regulation. A public utility, protected from competition, by act of government was required to submit to the regulation of its rates by government. To permit a utility to fix its own rates would be to permit a monopoly to charge excessively. If the prices charged by utilities for their products or services were too high, the effect on the full productive powers of capitalism would be exactly the same as unnatural prices created by the unlawful suppression of competition in business. Overcharging by public utilities would mean either that the *use* of *public utility services would be restricted* or that the *public would have less money to buy other products and services in the economy.* In either case a loss of production would occur. Public utilities, therefore, required that government successfully discharge the task of keeping their prices fair so as to maintain maximum buying power and maximum production in the economic system.

TRANSPORTATION INDUSTRIES

After the Civil War, there was developed in the United States the largest single railroad system in the world. Railroads became the principal means of transportation for the raw materials of agriculture and the finished products of industry. Inland waterways were expanded and water transportation also boomed. In the twentieth century, with the progress in automotive science, truck and bus transportation appeared and spread rapidly. In the twenties, the airplane, as a carrier of freight, made its debut as a potentially powerful transportation industry.

From the standpoint of a soundly functioning capitalism in the United States, the emergence of these transportation industries imposed on government a paramount duty of preventing excessive transportation prices.

Transportation prices vitally affect the volume of production in a capitalistic economy. Excessive transportation prices automatically restrict production by raising the price level of all products appreciably. Transportation costs may be pyramided many times over in successive stages of production until the finished product finally reaches the consumer. Thus a charge of one dollar for freight on the movement of raw materials may culminate in a cost of two, three or more dollars to the ultimate consumer.

Higher prices for food and manufactured products caused by excessive transportation prices reduce general buying power, which results in less production and less transportation.

GROWTH IN A CAPITALISTIC SYSTEM

If prices in agriculture and industry and transportation are determined by competition and if public utility prices are kept fair by government regulation, a capitalistic economy will tend towards full production with existing plants, existing methods of production and the available labor supply. A further increase will take place in the system if savings are employed to add new industries, new plants in established industries, or to introduce cheaper methods of production in established industries. It is necessary that this new productive power be added to the system under conditions of competition. If new industries are developed under conditions of monopoly or if new plants in established industries are permitted to function under the control of monopolists, less production will occur in the system. In the case of the introduction of new producing facilities embodying cheaper methods for turning out established products, the existence of competition is of particular importance. Such producing facilities may be bracketed under the term "improved technology" and improved technology is one of the richest and most important sources of new productive power in a capitalistic economy.

As a capitalistic economy matures, improved technology becomes of paramount importance. The degree to which living standards can rise in a capitalistic system is physically limited by the abundance of natural resources. As a capitalistic system ages, therefore, natural resources tend toward exhaustion. The greater cost of growing food on soil whose fertility has declined, the greater cost of extracting metals from lower grade ores, the greater cost of furnishing raw

materials from land whose nutritive powers have waned, will automatically cause prices to rise in both agriculture and industry, and their rise will automatically decrease total production in the system. This natural and inevitable result, however, can be arrested or even reversed if technological progress is sufficient. If methods of production improve it may be possible to produce the same amount of food, raw materials or metals at the same or even lower cost. If technology can make the cost lower, increased production will occur in spite of a decline in the richness of nature. Technology, therefore, can postpone indefinitely the exhaustion of physical resources, depending on the progress it makes. It is consequently of the greatest importance that technological improvements be encouraged and utilized to the fullest degree in a capitalistic system.

Improved technology, by lowering the cost of producing an established product, automatically makes possible a fall in its price. If the industry is competitive, the forces of competition will *insure* that the price will be lowered. The lowering of price will increase buying power in the economic system, which will be translated into increased production.[1] If, however, a cheaper method of production is introduced into a monopolized industry, the ability of technology to increase production becomes frustrated. Improved technology will then merely increase profits without causing a decline in price of a product. The monopolist will tend to hold to his old price and increase his profits by lowering his costs of production which the improved technology will make possible. Not only will increased production be prevented, but the use of improved technology will, under conditions of monopoly, reduce employment opportunities. The monopolist will be able to turn out the same quantity of his product with *less* labor and technological unemployment will occur. Under competitive conditions, technological unemployment is arrested by the increased demand for labor which results from increased production.

THE INVESTMENT MECHANISM OF CAPITALISM

Growth of productive facilities in a capitalistic system is ***not only desirable but absolutely necessary*** if the system is to avoid collapse.

[1]Consumers will either buy more of a product whose price has been lowered, or if they buy the same amount they will have a saving which can be used to buy more of other products.

In such a system individuals save, and the mere existence of savings requires that they be promptly and soundly invested. If this does not happen, production in the system will be immediately contracted because of a loss of buying power.

Let us use a simple illustration. Suppose a capitalistic economy turns out eighty billions of dollars' worth of goods and services in a year. In such a supposition the economy will also turn out eighty billions of income necessary to buy the goods and services produced. Now if fifteen billions of dollars of income are saved, fifteen billions of dollars of buying power are temporarily withdrawn from the market. If these billions are not promptly invested in wages and materials, either to replace worn-out capital or to expand production in the system, the market will be short fifteen billions of buying power. The subtraction of this amount of buying power from the market will immediately cause the economic system to *reduce production*. Business men will not be able to make a profit on sixty-five billions of dollars of buying power when eighty billions would have been necessary. Many will automatically fail or be compelled drastically to reduce their output. If, therefore, the investment mechanism jams in a capitalistic economy—*i.e.*, the existing volume of savings cannot find sound investment outlets—production and employment in the system will be automatically reduced.

When savings are promptly invested, however, their purchasing power is restored to the system and production is sustained or increased. Investment in a capitalistic economy is like the heart valve in the human body. If it is forced to contract it will immediately affect the flow of vital forces.[1]

VOLUME OF SAVINGS

Preventing a jam in the investment mechanism of a capitalistic system depends on the *ratio between the volume of savings and the quantity of outlets for investment*. If the volume of savings is large and the quantity of outlets for investment small, a jam in the investment mechanism will occur. Conversely, the smaller the volume of savings to existing outlets for investment, the less chance that such a jam will occur. The most important factor affecting the volume

[1]It has been estimated that, in good times, investment expenditures in our business economy have provided as high as approximately *twenty per cent* of the gross national income.

of savings is the concentration of wealth in a capitalistic system. When wealth concentrates, there is also a concentration of income and the volume of savings is automatically increased. This is true because the chief source of *savings is excessive incomes.* The great bulk of all savings represent surpluses "above consumption of those with high incomes." If democratic government, therefore, vigorously suppresses all the predatory devices and practices by which wealth is concentrated in a capitalistic system, the volume of savings is certain to be much less. A suppression of all forms of predatory business by democratic government, therefore, diminishes the possibility of a jam in the investment mechanism of a capitalistic economy.

MAXIMUM INVESTMENT OUTLETS

Democratic government must also protect the investment mechanism of a capitalistic economy against a jam by maintaining in the economic system at all times maximum opportunities to invest savings soundly. It must be vigilant to prevent business men from acquiring the power to stifle or diminish investment outlets. Business men must not be permitted to suppress or retard the fullest development of new industries. They must not be allowed to suppress, delay, or introduce under conditions of monopoly improvements in technology. Nor should they be permitted to confine the use of improvements in technology to parts of industries since the wider their use the more outlets for investment. Government must also keep the cost of promoting new enterprises fair and reasonable. It must prevent bankers from eliminating competition among themselves and establishing monopoly prices for their service of locating, mobilizing and investing savings.

Now if competition exists to a vigorous degree in banking, industry, transportation and agriculture, and if public utilities are charging fair prices, a capitalistic system will tend to produce to the fullest degree that its natural resource base will permit. The greater the production in a capitalistic system, the greater the opportunities to invest savings soundly in buildings and factories, retail stores, warehouses, home construction companies, farm mortgages and numerous other sources.[1]

[1]One of the most important outlets for investment is the replacement of worn-out equipment. It has been estimated that in good times in the United

As the system functions in the direction of full production, the possibilities of a jam in the investment mechanism of the system are reduced to a minimum and a wide margin of safety is assured. Under conditions of free competition, established industries will afford at all times an effective outlet for savings in the event that a temporary dearth of new industries or technological improvements develops. The necessity for investment in established industries would reflect itself in a fall in the cost of hiring capital and in the fees charged by bankers for guiding investment. Savers would have to take less on their savings, while bankers would be compelled to reduce their fees. The result would be advantageous to the creation of new competitive units in established industries, since the new units would enjoy lower costs of financing than many of their established competitors. The competition furnished by such new units would cause prices to fall, thus generating the buying power necessary to consume the increased production. The limits of investment in established industries would be approached only as the cost of hiring capital approached zero and the profits of industries approached zero. Long before established industries could become unprofitable for investment, the rise of new industries and the progress of technology would intervene to open up new cycles of investment.

AMERICA 1870–1900

Now let us see what happened to capitalism in the United States. The period 1870 to 1900 was a period of remarkable economic progress in spite of some handicapping conditions. The rapid rise of industrial capitalism after the Civil War inevitably produced at first immense disorder and uncertainties in the world of business enterprise. Markets and population shifted with baffling dexterity, new methods were substituted for old, and the commotion attending the birth of the new economic order was enormous. Wealth was also concentrating, and its restrictive effect on production had commenced. Nevertheless, during this period capitalism functioned more in accordance with the engineering principles governing sound growth than it ever did thereafter. But just when the wreckage of

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States approximately *one-half* the gross investment represents replacements. Consequently, the greater the amount of production in a capitalistic system the greater the sum of savings required to replace deteriorated equipment.

the old order had been cleared away, when markets were beginning to become more certain and the system was ready for a large and sound expansion of production, concentrating wealth had become sufficiently strong to launch a systematic and increasingly powerful attack on its productive powers.

The period from 1870 to 1900 was a period in which the march of invention and the improvement of technological processes was extraordinarily rapid. New labor-saving mechanical equipment was being rapidly introduced, not only throughout manufacturing but also in the fields of raw material production, transportation and agriculture. To quote from a distinguished economic historian of the period:

> The progress of the race in mechanical and scientific methods of directing human labor in the production of our satisfactions was something a little short of incredible.[1]

Competition was vigorous in the economic system and as a consequence of this fact, improvements in technology caused prices to fall substantially in the system. The expansion of production generated by the increase in buying power prevented wage rates from declining in terms of dollars paid out. Reckoned in dollars, wage rates remained remarkably constant, but the *purchasing power of wages increased appreciably*. This was a period in which trade unions were negligible in numbers and power. Yet the living standards of workers rose sharply. Capitalism was operating soundly in many industries to increase production. In the steel industry—to select one example among many—the price of pig iron declined between 1870 and 1900 from $33.23 a ton to $19.98 a ton, while the price of open-hearth steel rails decreased from $106.79 a ton to $16 a ton in 1898. Competition not only profited the wage earner and the consumer, it profited also the owners of business. During this period, industries in general showed substantial earnings.[2]

The driving force of this sound progress was the existence of vigorous competition in the economic system, and the vigorousness of competition was the result of an economic environment unfavorable to the creation of monopoly. In practically every field of industry, business units were numerous and of relative equality in

[1] *Income and Economic Progress*, Brookings Institution, page 139.
[2] Eliot, Jones, "Is Competition Ruinous in Industry?" *Quarterly Journal of Economics*, Volume 34, pages 413–519.

economic strength. Though many attempts were made in this period to get competitors to agree to fix prices, they were remarkably ineffective. Would-be monopolists discovered that a mere agreement to fix prices among numerous business men fairly equal in economic resources was worthless. Price cutters among the conspirators invariably succumbed to the temptation to take business away from those who observed the price agreement and broke up the agreement. Price cutters could indulge in such a naturally competitive temptation because there was no way to punish them for violating their word to keep agreements. There is only one effective way to punish a price cutter and that is for other units in an industry who are in favor of fixing prices to be able to start a successful price war against him—*i.e.,* sell below cost in the price cutter's markets and force him into bankruptcy. The retaliative technique of selling below cost, however, is *workable* only when the economic resources of the *retaliator* or *retaliators* individually are considerably greater than those of the price cutter. In that case, the retaliator can outlast the price cutter in a price war without bankrupting himself. If, however, the economic resources of producers are relatively equal, this method cannot be invoked. If used, the retaliator would be as likely to be bankrupt as the one singled out for punishment.

The general failure of all attempts to bring numerous competitors of relative equality in economic resources together in successful monopolistic price agreements, caused monopolists to search for a workable technique. Some way to coerce price cutters had to be devised and the investment banker produced the answer.

During this period a concentration in the control over savings occurred. This control became centered in a small number of powerful investment banking firms on Wall Street. It was investment bankers who discovered and applied a workable formula for creating monopoly in industry. The standard technique was to concentrate a high percentage of the total producing facilities of industries in *one or several giant concerns.* The concentration was accomplished by merging or combining numerous business units formerly highly competitive. The bait used to induce business owners to surrender their independence was excessive compensation for their properties. The owners of a company with perhaps a million dollars in property would be offered twice that amount, payable

either in the stock of the new giant corporation or in hard cash. The rewards of investment bankers were equally remunerative. The dull pages of many government investigations reveal the often fabulous commissions pocketed by a small group of investment bankers as they securely fastened on American industry an unbreakable system of monopoly controls.

The concentration of production in industries in *one or several giant corporations* immediately created an economic environment favorable to the existence of monopoly. Giant corporations were instinctively disinclined to compete. Monopoly offered both profits and security. Giant corporations could easily come to terms on a price, and the economic means were at hand to compel smaller units to toe the line in observing that price. The giant corporation, too, enjoyed protection from an invasion of its domain by new competitors. Investment bankers having created giant corporations, and having made millions of dollars in creating them, hung onto them as a continuing source of revenue. Corporations became the exclusive financial "prey" of the particular investment house that had brought it into existence. Investment bankers quickly established a rule of "ethics" by which it was declared "unprofessional to come to the financial relief of any corporation which was already the 'prey' of another reputable banker." In the issuance of new securities, paying for banking advice, speculating in its securities on "inside" information furnished by banking directors, and other phases of financial profit, the giant corporation was a continuing source of handsome gain to its investment banker. In return, the investment banker protected his monopolist client from the menace of new competitors who could come into existence only by obtaining sufficient credit. The investment banker protected the giant corporation from outside attack by refusing to finance the opposition of competitors or ideas. Monopolistic finance thus went into partnership with monopolistic industry, and the partnership was made impregnable by the corporate device of "interlocking directors." Big commercial banks, big investment bankers and big corporations became tied together in bewildering networks of interlocking directors. A community of mutual interest was effectively created, and the enormous concentrated power of industry and finance was wielded uniformly to keep under strict control competi-

tive energies that might interfere with the profits of suppressed production.

The greatest potential threat to monopoly was on the political front. The Federal Anti-Trust laws plainly forbade what was going on, but giant corporations made it impossible for democratic government to enforce them. These laws originating in the famous statute of John Sherman in 1890 and amended at various other times, have been a complete failure in preventing the growth of monopoly in American capitalism. Their failure is directly traceable to the economic power possessed by giant corporations and their financial allies. Giant corporations contributed heavily to political campaigns, and acquired in consequence far-flung political power.

They had millions to spend on the control of politics. They could hire the best legal talent to delay, wear down or outwit the enforcement efforts of government, secure the appointment of judges, keep on their pay-rolls skillful lobbyists with unlimited drawing accounts, tempt public officials with offers of remunerative employment in the world of big business, and exert crushing pressure on a press and magazine world dependent on the outlays of big business for advertising. Government with its $5000-a-year lawyers, its tragically limited personnel[1] and funds for enforcing the laws against monopoly, its judiciary packed with judges who had represented the interests of big business in their private law practices and who often owed their judicial seats to the financial and political backing of great banking and industrial interests, could at best only annoy the dragon of monopoly. Government occasionally scored victories for the anti-trust laws. But the fruits of these victories were short-lived. Monopoly, rooted in big corporations, merely bided its time and within a few years a successfully indicted monopoly would be in full swing again. The sad failure of the anti-trust laws can be summed up in the statement, which can be amply substantiated, that from 1890 to the present hour *monopoly grew steadily stronger and no important monopoly has been permanently broken up by any government prosecution under the anti-trust laws.*

The first big wave of corporate mergers swept over industry in

[1] At the time that Theodore Roosevelt was fulminating against monopoly and making a reputation as a trust buster, the Anti-Trust Division of the Department of Justice consisted of five lawyers and four stenographers!

the period between 1890 and 1900.[1] This technique of monopoly, once its efficacy had been demonstrated, continued, culminating in an orgy of mergers in the twenties. Beginning, therefore, around 1890, capitalism in the United States began to be systematically misoperated by business men—a misoperation that could not have occurred if government had properly policed the system so as to prevent business men from suppressing its natural productive powers. The systematic misoperation of the economic system caused a mounting and permanent loss of productive power in it.

Year after year the progress of monopoly in established industries robbed current production of billions of dollars in goods and services that would have been brought into existence under competitive conditions. New industries also tended to become quickly monopolized and this resulted in a further suppression of production. The frustration of technological progress by monopoly buried still more production in the system.[2]

The complete breakdown of public-utility regulation caused an additional reduction of production in the system. Excessive prices for the services of utilities became widespread.[3]

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[1]Frank A. Fetter, *The Masquerade of Monopoly.*

[2]The serious degree to which monopoly prevented improved technology from soundly increasing production in the economic system can be seen from the following data. During the years 1922–1929 there was a rapid introduction of labor-saving machinery in manufacturing industries, which substantially lowered costs by increasing the efficiency of the average worker. For manufacturing industries as a whole, *productivity per wage earner* increased by more than 25 per cent during this period. In a freely functioning competitive economy, the lowering of costs of production in manufacturing to such a substantial degree would have resulted in a substantial decline of prices. Retail prices, however, in this period actually rose. The price index for consumption goods ascended from 156 to 158, while the price index for producer's goods increased from 139 to 147. The failure of prices to fall indicates the strength of the monopoly controls which had been fastened on the system.

[3]The rates of public utilities were fixed by state regulatory bodies. The possibilities of sound regulation were upset by the development of holding companies. Thousands of local and formerly independent operating companies were absorbed by a few giant holding companies with the enthusiastic assistance of investment bankers. These mammoth companies could bring to bear upon understaffed and inadequately paid state regulatory commissions, enormous economic and political pressure. They could finance candidates against public service commissioners who resisted their conceptions of what rates should be, or they could offer high paying positions to commissioners who served their interests. Under this pressure, state rate-making bodies were reduced to tragic impotence.

The formula for rate making was first to determine the ratio between the net earnings of an operating company and the value of its physical properties If the ratio yielded a sufficient percentage of return, rates were fair. But

The total failure of government regulation to prevent excessive transportation prices accounted for many billions more of suppressed production.[1]

While production was being contracted in the economic system, the investment mechanism of capitalism was effectively mined for explosion. Private monopoly in industry and the systematic plundering of the corporate structure by financial groups were like two powerful pumps, which year in and year out drained income away from the masses and concentrated total income to an increasing

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holding companies found ways for making excessive valuations of the properties of their operating subsidiaries and for padding their operating expenses. A higher valuation of physical properties justified an increase in rates. The padding of operating expenses which reduced net earnings, also justified an increase in rates. The methods employed to inflate the rate bases of operating companies by holding companies ranged from seemingly respectable business transactions to flagrant forms of looting.

The failure of government regulation of utilities was bared in the thirties when a series of sweeping investigations by agencies of the Federal government disclosed excessive rates running into hundreds of millions annually of utilities supplying gas, electricity and telephone service. Some substantial rate reductions resulted from these investigations. But public utility rates in general remained excessive because the reductions in rates secured did not go as far as the abuses warranted, because of the continuing ineffectiveness of state regulatory bodies, still subject to the economic and political pressure of holding companies, and the existence of methods for exploiting rate bases which had not been touched by reform.

[1]In defiance of the clear intent of Congress and of the anti-trust laws from which transportation industries obtained no exemption, powerful railroad and banking interests succeeded in establishing private and illegal rate making bureaus which put an end to competitive rate making An investigation by the Department of Justice, for instance, in the thirties revealed that one person—a rate-making czar—exercised effective power to fix every rate on all railroads in western territory, subject only to the veto power of a banker group in New York!

As competition from lower cost water and truck transportation developed, the same interests moved successfully to terminate it, to force motor carrier rates upward to the level of rail rates and to arbitrarily relate water carrier rates to rail rates. By various predatory financial and business practices, but particularly through controlling the Interstate Commerce Commission and perverting its powers, the conspirators succeeded.

With the coming of the airplane and its threat as a cargo carrier to the interests of railroads, a new struggle was initiated but quickly concluded. An investigation by the Department of Justice revealed that Railway Express, a wholly owned subsidiary of the principal railroads, had made contracts with the principal air transport companies by which the latter agreed to keep the price of air express rates *at least twice as high as rail rates.* Actually, they were *found to be five to seven times as high* though the cost of air express at that stage of its development, according to expert witnesses, could approximate rail express rates, and effect large savings in time.

For a more complete picture of the tragic development of monopoly in transportation the reader is referred to the excellent book by Arne Wiprud, *Justice in Transportation.*

degree among a small group of the very rich. The result was an expanding volume of savings in the system. As this volume of savings mounted, excessive industrial, transportational and public utility prices also operated to reduce or dry up investment outlets in the system.

The formation of new capital (*i.e.,* investment of savings to produce new equipment) follows consumer demand. The greater the demand of consumers for products, the greater the use of savings to increase production facilities. Monopoly prices in industry and transportation, reinforced by excessive prices in public utilities, automatically reduced consumer buying power and reduced the demand for savings. A contraction of investment outlets followed.

One industry in particular may be singled out as illustrating how excessive prices stifled investment outlets. In the period between 1890 and 1929, the building industry became effectively organized to build only for the upper one-third of the population. Two-thirds of the people became automatically forced to live in cast-off homes when they sought a new one. The reason for this was that the price of a new home was kept beyond their reach. Within the building industry various gangs organized to keep costs of construction exorbitant and profits excessive.

The producers of building materials drew together in tight monopolies. Then the distributors added another layer of excessive prices. They drew together to establish fixed and exorbitant markups on building materials, to limit the number of distributors and to punish any producer of such materials who sold to a price cutter or to any distributor who had not been approved, by boycotting his wares. Contractors then added a third layer of excessive prices. This group organized to limit the number of contractors in communities and to give to local contractors a complete monopoly over local business. Competitive bidding among contractors was also outlawed. Bids on public construction were brazenly doctored so that the firm which had been already awarded the contract by a contracting ring would bid lowest. The low bid was, of course, always high enough to insure excessive profits for the job. On residential construction bids tended to be uniform and always high. In this profitable game of creating high costs the master plumbers added a new wrinkle. They were vigilant to smash up all the used plumbing taken out of dismantled houses on the pretext that they were pro-

tecting the health of communities from unsanitary plumbing. The threat of a market in second-hand plumbing to the monopolistic price structure established for new plumbing was thus considerably reduced, though large numbers of people in the nation were unable to afford any plumbing and had to rely on the rain barrel, the open well and the outdoor privy.

The racketeering of producers and distributors of building materials and contractors was then carefully protected by municipal building codes which prohibited any departures from the system of high costs. These codes originated on the sound theory that in construction work there must be minimum protection to the public from fire hazards and unsanitary and unsound construction. But they were quickly perverted from this laudable intent into legal water wings for excessive costs in construction. How effectively such codes insure excessive costs may be gleaned from the statement of Mr. Thurman Arnold, Assistant Attorney General in charge of Anti-Trust Enforcement, that he had been reliably informed that "plumbing which is good enough for the magnificent Department of Justice in Washington cannot be used in private homes in many cities." Municipal building codes also performed another vital service to the racketeers in the building industry. The whole progress of prefabricated housing has been stymied by these codes which uniformly prescribe that the walls used in the construction of buildings and homes shall be of a certain thickness. Prefabricated housing which threatens to slice appreciably housing costs specializes in much thinner walls made out of material which is fully as structurally sound as thicker ones made out of brick or stone or cement.

To the hiking of construction costs, labor added a fourth and impressive layer of excessive costs. Building labor became strong-arm squads for "collusive agreements between contractors, refusing to supply labor where the contractor's ring wished it withheld," or backed up price-fixing agreements of producers of building materials by forcing price cutters into line. It waged successful war on the introduction of labor-saving machinery which would have made it possible to build a house with fewer hours of labor. Bricklayers restricted the number of bricks to be laid in a day; plasterers, the number of square feet to be covered; painters, the width of brushes. The teamsters ordered that there be a member of the local teamsters' union on every truck entering a city in addition to the driver

who was already on the truck, and this practice of overloading jobs with personnel was enthusiastically applied elsewhere in the building industry.

Carpenters refused to handle kitchen cabinets which had been put together by efficient mass-assembly methods at the factory. Carpenters insisted that lumber should be sawed by hand at the spot where it was to be used instead of by automatic saws efficiently located in other places. Electricians would not touch electrical devices which had been assembled in units at the factory. Painters rejected materials which had been painted by machine methods at the factory. Glaziers refused to handle articles in which panes of glass had been set by factory labor.

The total result of all this was a building industry whose market was confined to the upper one-third of the population. But for the numerous practices artificially raising costs in the building industry, the market for homes could have been tremendously expanded.

Good homes would have been available to millions of families now living in shabby, worn-out and outmoded ones. An expansion of the market for homes would have opened up a large outlet for savings, since the producing equipment of the industry would have been expanded to meet the demand of home seekers. What was true of the home construction industry was true of numerous other industries. The suppression of billions of dollars of sound buying power due to the creation and maintenance of excessive prices in the economic system inevitably suppressed investment outlets that could have profitably absorbed billions of dollars of savings. Had competition existed in industry and transportation, had government enforced fair rates in public utilities, and prosecuted out of existence all other predatory techniques in business, the ratio of savings to sound investment outlets would have *provided a wide margin of safety for the investment mechanism of the economic system.* The possibility of its jamming would have been kept constantly remote.

In another way, too, private monopoly operating through giant corporations restricted investment outlets. Technological inventions tended to be forced under the absolute control of giant corporations. This was caused by the inability of independent promoters to obtain the funds necessary to finance the development of new inventions. The alliance of big corporations with big finance drove new inven-

tions into the arms of private monopoly. Woodrow Wilson vividly described and denounced this result when he said:

> The damper put on the inventive genius of America by the trusts operates in half a dozen ways: The first thing discovered by the genius whose device extends into a field controlled by a trust is that he can't get capital to make and market his invention. If you want money to build your plant and advertise your product and employ your agents and make a market for it, where are you going to get it? The minute you apply for money or credit, this proposition is put to you by the banks: "This invention will interfere with the established processes and the market control of certain great industries. We are already financing those industries, their securities are in our hands; we will consult them."
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> It may be, as a result of that consultation, you will be informed that it is too bad, but it will be impossible to "accommodate" you. It may be you will receive a suggestion that if you care to make certain arrangements with the trust, you will be permitted to manufacture. It may be you will receive an offer to buy your patent, the offer being a poor consolation dole. It may be that your invention, even if purchased, will never be heard of again.[1]

Even if an independent promoter could obtain the credit to finance an invention which would affect the domain of a monopoly, the giant corporation whose interests were menaced had another potent weapon at its command. It had the money to pay the costs of harassing or bankrupting the new competitor by expensive infringement suits. The Temporary National Economic Committee summarized the deadly effect of infringement suits in deterring the use of new inventions by independent competitors:

> Although the agencies of government, in their administration and interpretation of the patent laws, may preserve strict neutrality in dealing with different applicants for patent rights, inequality in the financial resources of such applicants may operate to the advantage of the stronger firms. While patent fees are low and the Patent Office and the courts will grant no special favors to large concerns, the complexity of the system creates potentialities of endless litigation and threats of litigation in which the party with the best legal talent is likely to be victorious. Thus a powerful patentee may be able to defeat the attempt of a small competitor to obtain or use a patent that would cut into the area of privilege

[1] Woodrow Wilson, *The New Freedom.*

which he holds. Interference proceedings may force the smaller firm to sell a pending application at the buyer's price. Infringement suits may compel a weaker company to transfer its patents to a stronger one. Exclusive rights thus tend to gravitate to large concerns, regardless of the legal status of their claims.[1]

Under the patent laws, an invention could be monopolized for seventeen years. Giant corporations discovered, however, that the monopoly could be continued indefinitely. By introducing minor improvements on a basic invention and ballyhooing the vast superiority of the old process plus the improvements through advertising and publicity, seventeen more years could be added to the monopoly status of the old process. The control of patents by giant corporations had three repressive effects on investment:

1. The invention might be totally suppressed. No one knows how extensively patents have been suppressed in industry. But from facts that have been brought to light by government investigations there is reason to believe that this practice is not negligible. The use of a new invention requires the use of savings and results in new investment. The suppression of usable patents results in the destruction of outlets for savings.[2]

2. The use of the new invention might be deferred until the machinery used in an older process had been worn out. Then, when the invention was used, depreciation funds would be employed to finance it. This kind of financing results in "no net increase in investment" in a capitalistic system. When savings other than depreciation funds are used to finance a new invention, a wider outlet for savings is created. *Under monopoly*

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[1]Final Report of the Executive Secretary, Temporary National Economic Committee, page 19.

[2]In *The New Freedom,* Woodrow Wilson observed, too, the tendency of monopolies to delay improvements in production even though such improvements may ultimately be utilized under conditions of monopoly which impaired their capacity to increase production in the economic system. "Wherever there is monopoly, not only is there no incentive to improve, but, improvement being costly in that it 'scraps' old machinery and destroys the value of old products, there is a positive motive against improvement. The instinct of monopoly is against novelty, the tendency of monopoly is to keep in use the old thing, made in the old way; its disposition is to standardize everything. . . . Of course, I am not saying that all invention has been stopped by the growth of trusts, but I think it is perfectly clear that invention in many fields has been discouraged, that inventors have been prevented from reaping the full fruits of their ingenuity and industry, and that mankind has been deprived of many comforts and conveniences, as well as of the opportunity of buying at lower prices." (Woodrow Wilson, *The New Freedom.*) Under competition, no corporation can afford to suppress or delay technological progress nor can technology be prevented from increasing production in the economic system.

new methods tend to succeed old methods. Under competition new methods tend to displace old methods. The difference from the standpoint of affording maximum investment opportunities in a capitalistic economy is large.

3. The concentration of patents on improved technology in the hands of giant corporations caused the use of such improvements to be confined to *only parts of industries.* Smaller business units in industries were denied access to the improved technology. The wider the use of an improvement in technology in an industry as a whole, the greater the demand for savings and the wider the field for investment. Smaller concerns either could not get the credit necessary to install improved methods, or they could not use such methods because giant corporations owned their patents. Thus in the twenties, a cross-section of industry revealed a large potential market for improved technology which could not be realized. There were boot and shoe factories where the output was 2 pairs of shoes per man per day and others where it was 12 pairs. There were blast furnaces where it took one man 1 hour and 12 minutes to produce a ton of iron and other blast furnaces where it took one man 11 hours to produce a ton—nearly ten times as long. There were sawmills where the output was 15 board feet per man hour and other where it was 323. Throughout the length and breadth of industry there were gross disparities in efficient equipment. In the thirties the Columbia University Commission on Economic Reconstruction sent out a questionnaire to prominent business executives and industrial engineers. They were asked: "What per cent increase could be effected by the industry reported if equipment and management were brought up to the level potential but unrealized in present mechanical and industrial engineering." The replies varied for different industries from 25% above the best previous performance to 1000%, with 100% as the most common answer. Under competitive conditions in industry and banking and better patent laws, the gross inequalities in efficient equipment would have been greatly reduced and additional broad outlets for investment kept open in the economic system.

4. Giant corporations tended to concentrate factories and plants at inefficient points in the economic system. In a capitalistic economy fabricating units located near to their sources of raw materials enjoy transportation economies which units more distantly located do not. Consequently, capitalistic economy in which industries are located as near as possible to their raw material sources will have lower prices and more production than one in which the distance between industries and their raw material sources is artificially lengthened. Under competitive conditions industries will tend to follow their raw material sources. If these sources shift, industries will have to move. Old plants will be abandoned

and new ones constructed. Such moves open up large opportunities for new investment. Though individual investors may suffer as old plants and factories are thus scrapped, the economic system gains in productive power and the benefits of increased production more than offset investment losses to individuals.

Giant corporations, by suppressing competition, tended to close the field for investment which would have existed if factories and plants had been under the constant competitive necessity and spur of locating as near as possible to their raw material sources. In the twenties, observers noted that 50% of all manufacturing in the nation was done in the Northeast seaboard region; 35% in the Middle West; 9% in the South and 6% on the Pacific Coast. They noted, too, if a map was plotted showing the location of factories and had superimposed above it a map of the sources of raw materials, the correlation was extremely poor.[1] The great bulk of raw materials were moved by long haul from the South and West to the great factory center on the Eastern seaboard. Made up into goods, a large percentage had to be moved, by long haul, back again. The excessive concentration of manufacturing in the Northeastern part of the United States is not the result of the operation of natural law in American capitalism. It is the direct result of the power of big business to destroy competition in the system. The economic and political power of large corporations have long been successfully exerted to maintain a system of preferential freight rates on our railroads which have made it impossible for the South or the West to engage in manufacturing. Goods manufactured in the East could be shipped into the South and West at much lower rates than goods manufactured in the South and West could be shipped (on a comparable mileage basis taking into account the unit cost of railroad operation in these regions) to the heavily populated centers of the East. Nor could the South and West engage in manufacturing for local consumption, because "through" freight rates on products fabricated in the East and shipped into the South and West were, in general, lower than freight rates between local points within the South and West. Preferential freight rates have long operated as an invisible tariff preventing the natural and economical growth of manufacturing in the South and West. The American Colonies revolted from the rule of a British King because of the Navigation Acts which tried to compel American business men to limit their activities to the production of raw materials. The Colonists objected to being compelled to be "hewers of wood and drawers of water." The Navigation Acts were overthrown, but the establishment of a preferential freight-rate structure in America after the Civil War doomed the

[1] Stuart Chase, *The Tragedy of Waste.*

South and West to "Navigation Acts" which could be successfully enforced.

The elimination of this preferential freight-rate structure and monopoly in American industry would open up a tremendous field for investment. Vast sums could be profitably invested in equipping the South and West with more efficiently located manufacturing plants and factories.

THE FIRST WORLD WAR

The first World War actually marks the period when capitalism in the United States was wrecked. The war speeded up the spread of monopoly in industry and the concentration of wealth and income to such an extent that when the last shot had been fired the economic system had become incapable of furnishing a living to the people.

During the war the emaciated anti-trust laws were suspended entirely. Business men were given a free hand to work together to hold up the government and the public on prices. Prices rocketed skywards and large corporations emerged from the war with bulging reserves after handing over in dividends princely fortunes to their owners. Concerns which had been running for years made in *one* year profits enough to return to their owners every cent that had been put into the business. Some did better than that—making enough to return to their owners four, five or even *eight* times every penny invested in the business. Out of the war came the greatest crop of new millionaires in the history of the nation.

The doughboys got $30 a month and a trip abroad. Afterwards they returned and asked for a trifling share of the plunder, to the shocked dismay of the leaders of finance and industry.

The war ended in 1919, but government spending continued in sufficient volume during 1920 to stave off a collapse of the economic system. By 1921 the decline in government spending had forced the economic system back on its own income for support, and the volume of income that the system could generate was insufficient to avoid drastic unemployment. A severe decline in production commenced. Its cause—a saturation of the economic system with excessive prices which permitted a rate of production far below that necessary to sustain employment. The Federal Trade Commission, asked by President Harding to analyze the reasons for the recession of trade, put its finger squarely on excessive prices. Said the Commission:

The following are among the principal causes:

(1) The excessive price of many basic commodities, prominent among which is coal, which vitally affects the cost of other commodities.

(2) The existence of the typical corporate monopolies and agreements in violation of the anti-trust laws.

(3) Open-price associations in many cases not yet challenged by the law, yet tending to bring about and maintain unduly high prices.

(4) Interference with the channels of trade by distributors, trade associations, particularly by activities tending to maintain an unnecessary number of inefficient regular dealers while shutting out new dealers seeking to sell at lower prices.

Suddenly the economic system was rescued from depression by the appearance of the greatest boom in the history of business. For seven years production steadily increased in the system until in 1929 national income was higher than it had ever been before. The recovery of business, however, rested on an unsound foundation. The expansion of production was effected chiefly by a reckless and unsound expansion of private credit. The system was in reality living off of borrowed money. Bankers lent billions to foreign governments and business men to buy our goods. There was an enormous expansion of consumer credit. State and local governments borrowed heavily for the construction of roads, schools and public works. A gigantic building boom absorbed other billions of credit as unrentable skyscrapers and apartment houses and Florida villas mushroomed over the landscape of the nation.

As billions of credit were pumped into the system, new rackets broke out in business and finance, the effect of which was to increase the concentration of income. Stock market pools, investment trusts, real-estate bonds, banking affiliates, chain banking, bonus rackets by corporate directors were all employed as devices for capturing and concentrating other people's money. *The ratio of the volume of savings to investment outlets reached a breaking point.* The supply of sound investment outlets existing in the system became incapable of absorbing the supply of savings. Savings were forced into speculative and unsound channels of investment—stock market speculation, the building of the fantastic utility, banking and railroad empires of the Insulls, Hobsons, Van Sweringens. These unsound structures inevitably reached the end of their credit and as they collapsed in receivership, the prices of stocks, which had

soared into the stratosphere, were immediately affected. An engulfing wave of fear knocked away the props from beneath the whole speculative edifice, and the economic system reverted to a rate of production fixed by monopoly controls. The result was millions of jobless people. At this point the New Deal took over.

THE NEW DEAL

The crucial problem before the New Deal was how to bring about the recovery of private business. Now business recovers from a depression as business is able to produce more goods. The production of more goods necessarily brings about the employment of more workers. If production can be increased sufficiently and sustained, unemployment will disappear and the depression will end. But business in a capitalistic economy can expand production only as consumers are able to buy more goods. A sound cure for depression, therefore, must find a way to soundly increase the buying power of consumers.

There is a way to *unsoundly* increase the buying power of consumers. This is the method of government spending. It is unsound because it does not bring about a recovery of business except in appearance. There can be no sound recovery of a capitalistic system from depression unless the system can proceed on its *own income power* without financial assistance from government. A capitalistic system generates its own income. Figuratively speaking, it stands on its own income feet. If the system is operated soundly, a maximum amount of income will be generated from within the system and this maximum buying power will be translated into full production. If the system is misoperated, the production of income within it will be reduced and this condition will be translated into less production. If the reduction of buying power becomes too great, the amount of production possible will be insufficient to avoid the emergence of permanent unemployment on a large scale. This was the plight of our capitalistic economy when the economic doctors of the New Deal undertook its treatment. The sound prescription required from these physicians was one which would make it possible for the economic system to recover on its *own income power,* to generate from within itself the increased buying power necessary to increase production. There was only one way to accomplish this.

The obstructions to the generation of income which had lodged in the system had to be removed. For this to be done, intelligent action by the government was necessary.

In a freely functioning competitive economy, the system contains within itself natural and effective recuperative powers when a depression is encountered. When depression overtakes the system, prices immediately fall and business failures increase. Failures in business correct maladjustments between supply and demand while the fall in prices increases buying power in the system automatically. The recession of trade is arrested and reversed and with an expansion of production the system heads naturally towards recovery. When, however, a capitalistic system becomes saturated with excessive prices caused by the suppression of competition, the system has no recuperative powers within itself. Prices, being controlled, do not fall to the degree necessary to bring about recovery. So long as the excessive prices can be maintained in the system, the system will remain in depression. Recovery will depend on the ability of government to bring prices down by eliminating the artificial controls which are keeping them up. The economic system must be overhauled and readjusted to function in accordance with the engineering principles governing the generation of maximum buying power within it.

In 1933, our capitalistic economy required drastic legislative repair. The center of the trouble was private monopoly in industry. Unless competitive prices could be re-established in industry, it would be impossible for industry to expand production. The dictum of Adam Smith that the expansion of industry was limited by the buying power of agriculture had become an unpleasant reality. Excessive industrial prices had depleted the buying power of the farmer and contracted production in the system. Other repairs were, also, necessary, but the destruction of private monopoly in industry was the most crucial. The successful repair of our capitalistic system could not be accomplished in a day. But a sound program of reform, once initiated and pursued, would result in a continual release of productive power in the system over a period of time. Ultimately sufficient productive power would be released to assure the full recovery of the system. American capitalism, reconditioned, would swing into high gear and smash all previous production records in the history of the world.

Instead of operating on the economic system so as to release purchasing power from within it, the healers of the New Deal prescribed government spending as the cure for the depression. Government spending was necessary to prevent the economic system from disintegrating into social chaos. The system had to continue to live off of borrowed money until its natural productive powers could be released by the application of a sound reform program. But government spending, as a cure for a broken-down capitalistic system, was futile. Government spending had no powers to uproot monopoly in industry. It could not open up sound investment outlets in private business. It could not abolish preferential freight rates on our railroads, nor liberate the enormous productive powers of technology that had been enslaved. It had, in brief, no powers to repair the economic system and *that alone could bring about its sound recovery.*

Government spending on an industrial structure, highly monopolized, caused monopoly to expand production while the spending lasted. When the spending fell off, the economic system promptly relapsed into a monopoly rate of production, and the process had to be started all over again. Government spending, however, was tied to public debt, and so a vicious circle was created. The government went into debt to increase production which ceased when the money borrowed had been spent. It was like trying to pour water into a leaky pail.

But in the inner councils of the New Deal, faith in government spending, as a cure for depression, continued unabated. As late as 1940, Doctor Tugwell could write that the failure of private business to recover under the stimulus of government spending was due solely to the fact that government had not spent enough. If government had doubled, tripled or quadrupled its spending the recovery of business would have been assured, he sagely concluded. Government spending could have only one logical economic result—national bankruptcy *with the problem of business recovery still unsolved.*

MORE MONOPOLY

Instead of attacking industrial monopoly as the taproot of the depression and concentrating on its elimination, the New Deal created more monopoly in the economic system.

The N.R.A. legalized industrial monopoly, where it existed and in industries where competition still lingered on, business men were given the legal power to liquidate it. During the period of the N.R.A., the pressure of monopoly on the stricken economic system was appreciably increased. The decision of the Supreme Court, declaring the N.R.A. unconstitutional, did not lessen this pressure. Business men continued to operate under N.R.A. codes which had boldly sanctioned the restriction of production so as to get prices up.

The A.A.A. program introduced the principle of monopoly into agriculture. Fields were ploughed under, little pigs were slaughtered, and the prices of basic agricultural products inflated.

It is not known whether the political strategists of the New Deal were acquainted with the wisdom of Julius Cæsar and Publius Clodius. But it is certain that they did perceive clearly the political advantages to be derived from creating workingmen's associations on a large scale. Laws were passed putting the Federal government into the business of forcing the growth of trade unions. Industries were forced to accept unions which the New Deal decided should represent the workers. The leaders of such unions were naturally grateful to the New Deal. Gratitude was made still more binding. The government turned over to those union leaders the power to compel workers to pay dues as a condition of employment. The collection of dues was also made easy. By law employers were compelled to establish "check-off systems." Finally union leaders were given a free hand to set up despotic controls over workers and their dues. Union charters were modelled along monarchical or oligarchical lines. In a short while enterprising men had taken advantage of the opportunity to make labor organizing the basis of a new plutocracy. In general, a small group of labor leaders succeeded in establishing a coercive control over the economic lives of millions of defenseless workers and exacted from them tribute running into hundreds of millions. Union executives blossomed forth with princely salaries and secure tenures of power.

The new plutocracy, however, did not forget the hand that had made them rich. As electoral associations, unions supplied the New Deal exchequer with lush campaign contributions and New Deal candidates with organized squads of voters on election days. The new fortune makers became as absorbed in buying the good will of

government for their business practices as any of the old robber barons of industry and finance.

The motive of political strategy which so largely inspired the use of government to force the growth of trade unionism was given a more edifying façade. The argument was made that through the growth of unionism wages could be increased. Higher wages would mean more buying power in the economic system. Business in consequence would be set on the road to recovery. It may be conceded that those making this argument for an expanded trade unionism were sincere. But from the standpoint of rehabilitating capitalism in the United States, an expanded unionism was a step in the wrong direction.

In a soundly functioning capitalism no one engaged in production has the power to limit it. The existence of competition as a regulator of production makes it impossible for selfish groups to enrich themselves by restricting production. Competition not only insures maximum production in a capitalistic system, but it provides an automatic method for dividing up fairly what has been produced among those engaged in production. In a soundly functioning capitalism, therefore, competition is the mechanism which raises or lowers wages. The competitive method for regulating wages prevents them from interfering with production.

Now the breakdown of American capitalism in 1929 was due to the success of business men and financiers in expelling competition from large areas of the system. At the levels of management and investment, controls had been erected which made it possible for those operating them systematically to restrict production. The restriction of production finally became so great that private business could not afford employment to a sizeable part of the nation's population. It was clear that the system would remain locked in unemployment unless those controls were eliminated. Certainly the system could not be rehabilitated by creating new controls for restricting production still further and putting such controls into the hands of other groups in the economy. In essence the trade-union method for raising wages through collective bargaining was simply an extension of the principle of monopoly to labor. For government to force the growth of monopoly in labor was to insure the application of more force to an economic system whose productive powers had already

been critically depleted by its use at the levels of management and investment.

As monopoly took root and flourished in labor, it would not fail ultimately to seek the same goal so tragically pursued by entrepreneurial monopoly—the restriction of production for the advancement of its own particular interests. Labor was, in effect, handed the power to create more scarcity in the economic system—a power that had already been acquired and ruinously used by business men and financiers.

The belief that the spread of unionism would start the economic system on the road to recovery proved illusory. The practical results of unionism exploded all optimism on this score. On the verge of World War II, though unionism had enjoyed a phenomenal mushroom growth, the depression continued unabated, unemployment being relieved only by government spending.

As a recovery nostrum, government-fostered trade unionism had fatal defects. If wages were raised only at the expense of excessive profits, the increase of buying power would be concentrated in the hands of only unionized workers. Other classes engaged in production—notably the farming class—would not benefit from this method of increasing purchasing power in the economic system. Increasing the buying power of the farmer was, of course, indispensable for a sound recovery of the system. Moreover, after excessive profits had been consumed in higher wages, monopoly at the levels of management and investment would still continue and constitute an impassable barrier to the recovery of private business. Finally, the trade-union method for increasing buying power subjected the economic system to numerous strikes with their attendant losses in production.

A restoration of competition in American capitalism alone offered a sound way to rehabilitate the system. As competition was restored excessive profits would have been consumed in price reductions. Such price reductions would have automatically increased the buying power of every person engaged in production whether unionized or not. The release of buying power would have been distributed to a maximum. At the same time the system would have been opened up for investment. Savings would have been put back to work creating more production and jobs. Competition, liberated, would then have worked towards the establishment of prices and wages

throughout the whole economy which would permit maximum production and employment in private business.

Under trade unionism, even when wages are raised only at the expense of excessive profits, the resulting wages may be too high to allow full production in the system. The higher wages of unionized workers will then be offset by unemployment both within their own ranks and in other producing groups of the economy. Competition alone provides effective machinery for adjusting wages and prices to levels which permit full production and employment. *There is no other workable method for achieving this end in a capitalistic economy.* It cannot be done by force or on an arbitrary basis.

The economist doesn't live who can tell what wages or prices should be to insure maximum production and employment in a capitalistic system. Nor can wage and price levels be adjusted for full production by a struggle between groups employing methods of force—between monopolized capital and monopolized labor. To ask trade unionism to determine what wages should be to promote the fullest production in a capitalistic system is to ask the impossible. Trade unionism like monopoly at the levels of management and investment will not inquire—even if that were possible to determine—into what is best for the economic system as a whole or the prosperity of all. It will tend to think humanly in terms of how much it can get for its particular clients. *The truth is that* trade unionism possesses no workable formula for determining FAIR WAGES. Fair wages are wages which will stimulate maximum production in the economic system as a whole. Consequently trade unionism invariably proceeds on the perfectly human but fatal course of pushing wages as high as the capacity of labor to strike can make them.

Inevitably, therefore, trade unionism has a disastrous effect on prices in a capitalistic system. Wages are raised not merely at the expense of excessive profits or even of reasonable profits—*but at the expense of prices.* When this happens—as it always does—higher wages for unionized workers results in a loss of buying power among farmers, professional and domestic workers, small tradesmen and numerous other persons also engaged in production but not unionized. The effect of this is to exhaust still further the remaining productive powers of a broken-down capitalism—to throw a greater burden on government spending to take care of the unemployed.

This was the trend of labor before the attack on Pearl Harbor. Trade-union activity tended to push industrial prices still higher. Had the system not been supported by government spending, these higher prices would have caused such a decline in demand for their products that the higher wage rates could not have been sustained. Industries would have collapsed in greater unemployment than existed in 1932.

The New Deal, however, was proceeding on the false theory that the recovery of business could be brought about by raising prices. *It was like trying to cure high blood pressure in an individual by increasing the pressure.* The economic disease of *high price pressure* could likewise not be cured by increasing the price pressure on American capitalism. Hence as prices rose in the economic system under the impact of N.R.A., the A.A.A., and trade-union activity, the sound buying power left in the system was contracted still further. The system was actually made more dependent on government spending, but the further loss of productive power in private business was *covered up by such spending.*

A GLEAM OF HOPE

Suddenly, on April 20, 1938, President Roosevelt seemed to see in all their nakedness the tragic economic blunders of the New Deal. In a remarkable message to Congress, he talked forcibly the language of Adam Smith. Bluntly he said that unless competition could be restored in industry, the recovery of business could not be achieved. He pointed the way for the sound recovery of business—the release of buying power from within the system. Said the President:

> In output per man or machine we are the most efficient industrial nation on earth.
>
> In the matter of complete mutual employment of capital and labor we are among the least efficient.
>
> One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident, and where *rigid prices* are general.
>
> Managed industrial prices mean fewer jobs.
>
> Our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for labor and capital.

Even the most monopolistic business man disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit inevitably destroys the BUYING POWER OF THE NATION AS A WHOLE.

Once it is realized that business monopoly in America paralyzes the system of free enterprise on which it is GRAFTED, and is as fatal to those who manipulate it as to those who suffer beneath its impositions, action by the government to eliminate these *artificial restraints* will be welcomed by industry throughout the nation.[1]

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[1]The President's message should be compared with the following statement taken from the studies made by the Brookings Institution of the causes of the depression of 1929 and proposed methods for effecting a recovery of business. The Institution frequently avoided the use of the word "monopoly" because business men are generally sensitive about being called monopolists. It substituted less offensive synonyms such as "price stabilization," or "holding production in leash." The Institution said:

> It is, however, evident from the facts disclosed in our general study of the distribution of income, that the *competitive process* upon which we rely to disseminate the benefits of progress have failed to function with expected effectiveness.
>
> The method of continuously expanding markets through a persistent reduction of prices as efficiency increases has, in a considerable measure, *ceased to operate in American business.* Price stabilization policies have in many lines come to stand in the way of a dissemination of the benefits of business progress, and have, therefore, tended to *nullify the results of technological advance.*
>
> The basic economic policy which we are enunciating does, however, definitely attack what we regard as a serious abuse of the profit system and the institutions of private capital which have grown up in modern times. This is the tendency to centralize economic advantage, to protect existing business enterprises by protecting the price structure. For more than fifty years this tendency has been developing through the devices of corporate consolidations, pools, trusts, cartels, trade associations and code authorities. Particularly since the World War, and often with the active assistance of government, efforts have been going forward to stabilize existing business situations, and to underwrite the prosperity of individuals, corporations, or large business groups by attempting to stabilize prices. We believe the evidence is clear that such attempts, however well intentioned, are dangerously short-sighted. (*Income and Economic Progress,* Brookings Institution. My italics.)

The President's message should also be compared with the joint statement issued in 1932 by 127 distinguished American economists which said:

> The most competent economic opinion, as well in Europe as in this country, can be cited in support of the view that a strong contributing cause of the unparalleled severity of the present depression was the greatly increased extent of monopolistic control of commodity prices which stimulated financial speculation in the security markets. There is growing doubt whether the capitalistic system, whose basic assumption is free markets and a free price system, can continue *to work with an ever widening range of prices fixed and manipulated by monopolists.* (Italics mine.)

The President, too, pointed out that the plight of American capitalism was not the fault of the system, but of its misoperation.

> No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern "private enterprise" democracy.
>
> It is a program whose basic thesis is not that the system of private enterprise for profit has failed in this generation, but that it ***has not yet been tried.***

Finally the President seemed to perceive the nature of the economic process by which free governments have been destroyed in history when he said:

> The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.
>
> Among us today a concentration of private power without equal in history is growing.
>
> This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the nation as a whole.[1]

Coincident with the President's message to Congress, the Anti-Trust Division of the Department of Justice received larger appropriations, and under the leadership of Thurman Arnold, a vigorous anti-monopoly drive appeared to get under way. Those who had criticized the New Deal for its failure to attack the monopoly problem were at first elated. Later on, this elation turned to bitterness. The monopoly drive turned out to be largely political window dressing. This was not the fault of Mr. Arnold. A brilliant and honest public official with a genius for spicy language, he did convict numerous corporations of violating the anti-trust laws. But the convictions brought with them no effective eradication of monopoly. Cutting off some of the heads of a hydra-headed monopoly monster, however, could not result in the long run in any net loss of heads or appreciably weaken the monster. The heads would grow back

[1] Message from the President to the Congress Transmitting Recommendations for the Strengthening and Enforcement of the Anti-Trust Laws, April 20, 1938. In the excerpts I have quoted, the emphasis given to significant words and phrases is my own.

in time for the reason that convictions never eliminated either the *means or the incentive* to repeat the offense of monopoly. Giant corporations, convicted of violating the anti-trust laws, paid small fines or took weak consent decrees and bided their time. They knew from past experience with the monopoly laws that spasms of prosecuting activity were to be expected. These temporary flurries of reform had always passed and the convicted had been able to repeat their violations of those laws, often for long stretches of time. The political power of giant corporations had always been able to restore amicable relations between anti-trust enforcement and big business. No permanent and effective reduction of monopoly in the economic system was possible without first strengthening the anti-trust laws themselves and then working out a gradual but drastic revision of the whole corporate structure of industry, if stronger laws failed to get results. Monopoly could not be deterred by ten-cent penalties, and so long as the concentrated economic power of giant corporations was left undisturbed, monopolists had in their hands the means to recreate monopoly.

Within a few years, Crusader Arnold had been retired to a judgeship. With the advent of World War II, the monopoly laws were again suspended and in the progress of that war the power of monopoly in the economic system increased.

THE POST-WAR PERIOD

America is again at peace. But while the war was in progress and American youths were perishing in foxholes, the economic forces which in the 'thirties were driving democracy in America towards the reefs of an authoritarian state grew increasingly more destructive. Today, in the first moments of our military triumph over some of the international enemies of free government, the battle to save American democracy from annihilation at home is entering its critical phase.

As a result of the war the pre-war capacity of plutocracy to prevent production in private business has been implemented to a point of crushing power.

At the top of the economic system, big business is emerging from the war with reinforced strength to maintain and extend at the levels of management and investment its power to keep production

suppressed in private business. The effect of every war in America since the Civil War has been to increase the range and power of monopoly in business. As in World War I, the anti-trust laws were suspended in World War II. Business men were given a free hand to multiply agreements among themselves which in times of peace would have been clear violations of the monopoly laws. World War I demonstrated convincingly that such agreements do multiply and that they tend to be perpetuated in the period of peace unless scotched by prosecution. The concentrated economic power of big business—the heart of the monopoly problem—was also increased by World War II. Big business is emerging from the late war with billions of dollars of additional power in war profits, new plants and transportation facilities, new industries and processes. It has also fallen heir to the business of many small businesses which perished in the war effort because of government policies which favored big business and finance.

At the bottom of the economic system, the efforts of government to force the growth of trade unionism has supplied the other end of a powerful pincers movement which is moving in to squeeze the remaining life out of an enfeebled capitalistic economy. During the war, wages in many industries soared to fantastic levels. This unprecedented wage-rate structure was possible only because the government BORROWED countless billions to pay its bills. At the moment powerful unions, their coffers bulging with dues levied on war wages, are girding themselves to keep wages at or near their war level. Such a level of wages will automatically curtail employment and production. It will quickly drain the reservoir of war savings which alone stands between the economic system and complete dependence on government spending. The economic system is now being squeezed both at top and at bottom. This double pressure, if continued, can have only one result. Government spending on a large scale will be imperative to take care of the unemployed. What is left of capitalism in the United States is now hardly recognizable. The system is now in the grip of five powerful monopolies—industry, agriculture, transportation, investment and labor. Natural law—the essence of a genuine capitalistic economy—has been practically abolished. The attempts of these five monopolies to advance their respective selfish interests by keeping prices up will make it utterly impossible for private business to carry the employ-

ment load on its own power. The whole economic system is now firmly caught in the toils of government spending. At the same time this disastrous situation is being proclaimed as the sure road to abiding prosperity. Government spending has now been rationalized into a philosophy of abundance for the common man.

On Capitol Hill the Murray bill, sponsored by Senator James Murray, declares it to be the duty of government to provide every citizen with a job. His method—a limitless spending program by government. At the other end of the avenue, President Truman approves the Murray bill and exhorts Congress to pass it. From the Department of Commerce, Henry Wallace, its Secretary, also endorses wholeheartedly the idea that government is obligated to furnish every person willing to work with a good job. In his book *Sixty Million Jobs* it is clear that Mr. Wallace proposes to achieve this objective by having government spend billions each year on all sorts of ventures to make work. The whole program of the powerful CIO-Political Action Committee is to create abundance for the American people by having government *spend countless billions on all sorts of projects*. They are seeking to get control of the purse strings of the nation by electing their representatives to Congress, who will quickly open the flood gates of public spending.

Nowhere in politics is there leadership to head off the disaster which now impends. It is NOT the business of government to furnish a democratic citizenry with jobs. That is an alien and dangerous power of government in a democracy. Democratic government may spend temporarily to keep the people from starving. No one objects to that. But government must stop there. When government spending becomes necessary in a capitalistic society it is a clear warning that private business is in need of repair and that, if government does not devise and apply a sound program for releasing the powers of private business to produce jobs, free government will perish.

A sound capitalism has no need of government spending. It is the function of private business to furnish a free people who wish to remain free with jobs, without assistance from the government. If business cannot do this, it is sick. It is then the imperative duty of democratic government to find out what is wrong with business and apply remedies which will put business on its feet producing under its own income power. Whatever the ills of a broken-down

capitalism which has become dependent on government spending, they cannot be cured by government spending. That is the medicine which always kills the system and freedom with it. It is high time that government in the United States buckled down to the job of devising and applying a sound program which will restore to private business its capacity to furnish the people with jobs and to protect American democracy from destruction by an authoritarian state.

Post-war America is now drifting unmistakably towards such a state. If government spending continues, government will encroach steadily upon the remaining domain of private business. It will weave webs of control from Washington which in time will make government the all-powerful director of all economic activity through the medium of bureaus. As that process unfolds the American eagle—symbol of the political freedom which our forefathers wrested from a monarch and a wilderness—will become a wingless, beakless and clawless caricature of its once proud self.

CHAPTER XII

WORKABILITY OF COMPETITION

FOR many years big business in the United States has not only made war on competition by eliminating it over large and important areas of the economy, but it has also striven to discredit competition in the public mind as an unworkable regulator of trade. This propaganda has contended that the anti-trust laws should be scrapped and business men permitted by law to form monopolies. It is important at this point to dissect the false arguments that have been advanced against competition.

It is claimed that business men will not compete—that competition leads to monopoly and that nothing can prevent this result. The fact is that competition leads to monopoly only if democratic government allows business men and financiers to create the economic means for suppressing it. To say that government cannot prevent the creation of such means is to argue that government is not capable of governing. In a favorable economic environment, business men will compete and competition will be maintained by the selfish instincts of business men to preserve it and by the freedom of government to proceed against conspirators who manage temporarily to succeed. For thousands of years competition has demonstrated its workability. Wherever in history competition has appeared, production has increased and the prosperity of the people has advanced. When it has disappeared, production has invariably declined and the poverty of the people increased. The disappearance of competition has always been due to the failure of government to prevent business men from destroying it, and the processes by which it has been destroyed have always been artificial.

Competition is decried as a basic cause of over-production and unemployment. Temporary over-production in certain industries of a capitalistic system cannot be avoided. But in a soundly operated capitalistic system over-production quickly adjusts itself. Temporary over-production and unemployment in a competitive system are

preferable to constant under-production and permanent unemployment in a monopolistic one.

It is said that competition is the root of depressions. Depressions cannot be averted in any capitalistic system. But, if the system is functioning soundly, depressions tend to be short-lived and production rebounds to higher levels. When monopoly spreads in a capitalistic system, however, the ultimate result is permanent depression and unemployment. Even if monopoly could eliminate the business cycle—which it can't because monopoly itself causes depressions and delays the recovery of business by checking the fall of prices which stimulates buying power—the price of its elimination would be too great. Under monopoly there would be no chance of maximum production, employment and living standards for the masses in a capitalistic system.

Competition is often accused of being the cause of low wages. This argument is valid only under one condition—the reduction of competition in a capitalistic economy through the growth of monopoly. As monopoly encroaches on a competitive economy, its effect is to burden surviving competitive industries with labor surpluses, unemployment and low wages. It creates competitive "sore spots" which give competition a bad name. Consider the case of the bituminous coal industry before the passage of the Bituminous Coal Act. In this industry, in peace times, miners had generally been able to work only one hundred and eighty days in the year and the income of an average miner was extremely low. But the low wages and chronic unemployment in this industry were not the fault of competition within it but of monopoly outside it. Monopoly, by restricting buying power in the economic system as a whole, reduced the demand for coal (there were thousands of families who would have bought more coal if they had possessed buying power). By contracting production in the industries monopolized, it reduced the demand for labor and destroyed jobs. Because of the growth of monopoly in other industries, the surplus labor in coal mining had no other place to go and the reduced demand for coal insured low wages.

But if competition is active in a capitalistic economy and its operation is regulated by government to make it humane (prohibition of long hours of labor and unsanitary or dangerous working conditions), competition is a true friend of labor because it becomes

an instrumentality for securing maximum wages for labor. The *only source* of wages is production. The more production in a capitalistic system, the greater the demand for labor and the higher wages in general. Adam Smith's dictum that "it is the continual increase in national wealth that occasions a rise in the wages of labor" is an eternal verity. In a soundly operating capitalism, employers would tend to compete for a shortage of labor. The growth of monopoly in such a system eventually causes labor to compete for a shortage of jobs. Wages are forced down to artificially low levels. Unionism may eliminate competition among workers for jobs, keep those who have jobs in them, and secure for special groups high wages. But for labor as a whole *there are certain to be less wages and fewer jobs because of the loss of production* due to monopoly.

Finally competition is pictured as the cause of enormous waste. Waste, of course, is inescapable in a competitive system. It is also inescapable in any economic system. But in a capitalistic one, a large amount of waste is productive of efficiency and economic progress and consequently serves a useful purpose. Thus fair competition puts the inefficient out of business. The death of the inefficient is waste. Yet it is waste that keeps business men on their toes constantly striving to improve quality and lower prices. It is waste that operates to stimulate maximum production in a capitalistic economy.

Inventiveness, too, often lands in failure, but this kind of waste moves mankind on to obtaining more powerful and efficient tools of production. In a capitalistic system, therefore, there is a substantial amount of *unavoidable* waste that is necessary for the realization of efficient production in private business. Its existence is indispensable if a capitalism is to function effectively.

There is, however, waste in a competitive system which is *avoidable* and which serves no useful purpose. But this waste is not inherent in the competitive process. It exists because of the failure of government properly to regulate trade practices in private business. In addition to its duty to prevent the elimination of competition by business men in a capitalistic system, government also prohibits business men from using trade practices which result in waste that can be avoided without interfering with the maintenance of competition. Government should constantly survey industries for such practices and then prohibit their use. To a degree and in a

half-hearted manner government in the United States has attempted to do this. But because its efforts in this direction have been so limited, a large amount of avoidable waste has accumulated in American capitalism. Thus not infrequently food products have been deliberately destroyed by business men so as to keep prices up. This is a vicious practice, but to date the government has not made it a serious offense. Every year consumers are deceived by various forms of shoddy and illth running into billions of dollars. Every year a large amount of agricultural produce goes to waste because it has not been packed soon enough, not packed soundly, or not properly inspected for defective material before shipment. For many years government has been singularly laggard in formulating and enforcing rules for the exploitation of natural resources like oil or gas which would have cut down on waste without interfering with competition. Many other forms of avoidable waste in American capitalism could be cited, but its existence does not establish a case for the elimination of competition. Its existence is an indictment of government for its failure adequately to regulate the competitive process so as to make it as efficient as possible. To propose the elimination of competition as a cure for such waste is like proposing to burn a house down to get rid of rats. There is in fact no conceivable example of avoidable waste in a capitalistic system that cannot be effectively treated by government regulation which will still preserve competition.

To propose private monopoly as a remedy for the avoidable waste in a capitalistic system is to propose a remedy that would calamitously aggravate the disease. Monopoly causes an enormous amount of waste that is entirely avoidable and which serves only a destructive purpose. Monopoly wastes production by suppressing it, or by keeping off the market or delaying the use of new ideas which would make production more efficient and abundant. It wastes health by making it impossible for many people to afford adequate diets. It wastes manpower by destroying jobs and by creating slums which undermine the physical and moral stamina of people. It is the *greatest of wasters* because it produces poverty for the people —the taproot of human ills.

The great medical scientist, General Gorgas, who conquered the ancient scourge of yellow fever at the Panama Canal Zone some

years ago, once summed up a wealth of keen and practical observation when he said:

> Everyone who looks beyond and beneath his particular field, everyone who ponders on the primary causes of disease, vice, feeble-mindedness, everyone who, in other words, brings his scientific imagination as well as his scientific knowledge to bear upon this problem is finally forced into the conviction that underneath all obvious and immediate causes there lies one general and determining social cause—poverty.[1]

PLANNING PRODUCTION

The crusade launched by big business against competition in the twenties sought to persuade Congress to abandon the laws against monopoly. It was called "self-rule in business" and the movement operated behind such catchy slogans as "Less Government in Business and More Business in Government." The central idea was to make industries economically autonomous. Business leaders were to be given the legal right to gather around council tables and to plan production for their respective industries without interference from the government. Private monopoly was to be made lawful by repealing the anti-trust statutes. From the standpoint of repealing such laws, the crusade was a failure. But in substance it was a success. The anti-trust laws remained on the statute books but their enforcement was so weak that business men made real progress in the further elimination of competition from business and in the planning of production along monopolistic lines.

Then came the collapse of American capitalism in 1929—a collapse due principally to the very success of business men in extending the range of monopoly in private business for upwards of half a century in defiance of the anti-trust laws. The depression of 1929 was, in fact, a solemn refutation of the whole philosophy of self-rule in business. That rule, in spite of the anti-trust laws, had prospered to such an extent that it had finally wrecked the capacity of private business to carry the employment load of the nation. But, out of the depression of 1929, was born a new, more vigorous and dangerous program to effect the complete elimination of competition in business.

[1] From one of General Gorgas's speeches.

In the thirties, American capitalism was revealed as a desperately sick and emaciated economic order. Democratic government having permitted the misoperation of the system for years in violation of all rules for sound economic health, the system had finally become bed-ridden, its productive energies seriously exhausted. Since the competitive motor of the system had been thoroughly impaired, the system had no recuperative powers. As it remained locked in depression, the idea gained support that the system must be brought under control. One program for accomplishing this end has developed into a formidable movement. It proposes:

1. Government, business and labor should become partners in the planning of production on a national scale every year. This planning would, of course, require that the anti-trust laws be repealed so that representatives of the three planning groups could determine what kinds of goods would be produced and in what amounts and at what price each kind would sell.

2. The capacity of private business to furnish jobs under the planning operations of government, business and labor *must* be supplemented by large-scale government spending on all sorts of ventures and enterprises. Government spending thus is to be elevated from a temporary relief measure into a permanent role in the operation of the economic system.

The leading exponent of this program at the present moment is Mr. Henry Wallace, the Secretary of Commerce. In his book *Sixty Million Jobs* Mr. Wallace does an excellent job of intriguing the interest of millions of Americans who recall vividly the lean thirties and who are fearful of the future. Yet in the whole history of the nation no more dangerous proposal has ever been made to the people. The Wallace program, if adopted, would quickly terminate both capitalism and democracy in the United States. We do not accuse Mr. Wallace of knowing that such would be the consequences of his program. On the contrary, we credit him with sincerely believing that he has a sound scheme for bringing security and abundance to the common man in America within a framework of business and political freedom. This is what he says it will do and we do not doubt his sincerity. Mr. Wallace, however, is not the first man in history to be duped by his own idealism. His program is so dangerous and the public response to it so naïve and trusting that it is necessary to examine it closely.

1. The economic philosophy of Mr. Wallace is not new. Actually it has already been tried and with ruinous consequences to capitalism and democracy in other parts of the world. Mr. Wallace, without knowing it, has fallen for the idea of giving Fascism a trial in America. By Fascism we mean the *economic philosophy* which was first developed and applied in Italy under Mussolini and subsequently adopted by Hitler in Germany and by other political charlatans in other countries of Europe. The deadly nature of Fascism is that it always appears as a plan to make capitalism and democracy work but creates a relationship between government, business and labor which automatically ends up in autocratic government and the extinction of both.

DIFFERENCE BETWEEN CAPITALISM, COMMUNISM, AND FASCISM

In a capitalistic system the means of production—the land and factories and stores and mines, utilities and financial institutions—are owned by private individuals and operated by them for a profit. In general the production and distribution of wealth is organized through the operation of competition or natural law. Now in a soundly functioning capitalism—and this point is very important—it is not necessary for government to borrow money from private sources and spend it to create employment. Private business carries the employment load and government does not have to supplement the capacity of private business to furnish jobs through government spending. This is what we started out with in America.

In communism all the means of production are owned and operated directly by the government, so that everyone, in addition to being ruled by the state, is, also, an employee of the state. This is what we have in Russia.

In the Fascist type of economic system, there are some of the characteristics of capitalism. Thus in such a system the means of production are in general owned by private individuals just as they are in a genuine capitalistic system. Theoretically, too, private business is managed by its private owners. But actually all is managed in accordance with plans made by the state through the medium of powerful bureaus and a far-flung bureaucracy which exerts a minute and thorough control over all productional activities. The funda-

mental element of a capitalistic system—competition as the organizer of production—does not exist. Production is planned by the arbitrary decisions of bureaucracy. At the same time, government supplements the capacity of private business to provide employment by large-scale spending on all sorts of projects.

In the fully developed Fascist economy, the state exercises a despotic control over all business. It plans production while business and labor are relegated to the status of obeying bureaucracy. The state has so much economic power that it plans politics as well as business, and autocratic government is inescapable.

Now Mr. Wallace does not propose this result. He advocates that government and business and labor should *cooperate* to plan production. His assumption is that such cooperation can be maintained and that its existence will prevent the state from reducing the other planning partners—business and labor—to subjection. This assumption is not tenable.

When Mussolini first came to power in Italy he declared himself to be the champion of both capitalism and democracy. He then proposed that government, business and labor should cooperate to plan production. This program was represented to the Italian people as a plan to vitalize capitalism and democracy in Italy and to secure abundance for the common man. When tried, however, his scheme quickly fastened despotic government on the necks of the Italian people, and business and labor became slaves of an all-powerful bureaucracy.

The reason why *any attempt* by government, business and labor to plan production necessarily leads to autocratic government is not difficult to discover. Once competition is completely abolished in a broken-down capitalistic system and government and business and labor set out to plan production, a struggle for power is precipitated. Labor is interested in high wages. Business is interested in high profits. Theoretically, government is interested in establishing wages and prices at levels which will make it possible for private business to furnish full employment.

Now when a capitalistic system has broken down in permanent unemployment, the heart of the trouble is the price mechanism of the system. The prices of many products have become excessive. Their excessiveness is due to the success of business men in circumventing the operation of natural law in the system and in fixing

prices to yield excessive profits. The existence of such excessive prices sharply restricts the exchange of goods in the economy and hence the volume of production. The only sound way to restore the capacity of private business to carry the employment load and to progress towards higher standards of living is to *restore the operation of competition in the stricken system.* If competition is restored as the regulator of production it will bring about an adjustment of prices to levels which will effect this end. Private business will absorb the unemployed and a capitalistic system will be made workable again.

But when government, business and labor attempt arbitrarily to establish a price structure which will make possible a maximum exchange of goods produced by private enterprise and hence a maximum volume of production, this goal becomes impossible of realization. If business and labor get the upper hand in the planning process, the economic system is certain to be loaded with prices at levels which will automatically prevent private business from furnishing full employment. If government gets the upper hand, it has no reliable measuring rod for determining how high particular prices should be if private business is to afford maximum employment. Are prices to be fixed on the basis of yielding to every producer a reasonable profit and to every worker a reasonable wage? If so, what is a reasonable profit and what is a reasonable wage? The idea that production should be planned by government sounds fine. But when it is attempted the planners quickly find themselves baffled by the problem of how high or low prices should be if private business is to afford full employment. Only competition can solve this problem. Its solution on an arbitrary basis is impossible. Even with the best of intentions government cannot plan a price structure which will yield maximum employment in private business. Prices will inevitably be fixed at levels which will not support full employment in private business. A sizeable amount of unemployment is certain to persist and to make government spending on a considerable scale necessary to supplement the incapacity of private business to carry the employment load. In both Italy and Germany the attempt to plan production on an arbitrary basis resulted in economies that had to be held together by large-scale government spending. From the Italian and German experience with the arbitrary planning of production, a human factor is noticeable which greatly aggravated the fixing of prices at levels which made

full employment in private business impossible. In both Italy and Germany, bureaucrats tended to feather their nests, to acquire hidden interests in industries whose prices they planned and consequently to plan the prices of such industries so as to make them as profitable as possible. These interests were acquired either as a result of the opportunity bureaucrats had to coerce industries, or the opportunity that existed for industries to protect themselves by bribing bureaucrats. The Fascist economic structure supplies powerful incentives for government to graft on business, or for business to bribe government.

But the continuance of government spending in large volume which inevitably results when government, business and labor attempt to plan production, is the force which ultimately dissolves the cooperation between the planning partners. Through its spending power, government emerges as the complete master of the planning process. Business and labor degenerate into impotent and voiceless partners in the cooperation, and autocratic government triumphs.

However, the Fascist type of economic system which makes autocratic government inescapable is an unstable type. It eventually must collapse in some form of communism. The reason for this is that the system has to live off constantly increasing public debt. Every year the operators of a Fascist economic system have to borrow more money from private sources to prevent it from collapsing in unemployment. As the national debt soared in Italy and Germany, both Mussolini and Hitler were forced to engage in a desperate hunt for funds with which to keep their systems alive. The problem finally became so critical that both were glad to turn to war to cover up the desperate financial condition of their economies. Had the Axis Powers won the war both Mussolini and Hitler would have been forced to reorganize their dictatorships along communistic lines. When national credit becomes exhausted, a Fascist economy can no longer avoid unemployment on a large scale. Communism, however, offers an economic system in which dictatorship can be perpetuated without government's having to worry about deficit financing. In communism, the state owns and operates all business. To provide jobs through public works all the government has to do is to order the delivery of the material needed for their construction and order certain workers on the job. The communist state, in fact, does not have to worry about money for any purpose.

It can use ration cards which state on their face how much of what has been produced in the form of consumer goods is allocated to each individual. Communism leaves only the problem of clubbing into submission those who do not like the quantity or quality of their rations, or who may complain too loudly that commissars, bureaucrats and generals live off the fat of the land while the people must take what is left.

2. The economic order advocated by Mr. Wallace could not fail to be dependent on large-scale government spending. But Mr. Wallace frankly concedes this fact. He bluntly urges that the state in America spend billions annually on all sorts of enterprises, apparently not realizing that this would be the womb of the autocracy which would emerge from his plan if tried. Nor does he perceive that this system, if adopted, would be headed for collapse in some form of communism. The national debt in America is already tremendous. Some professors have, however, told Mr. Wallace that through more government borrowing lies the best chance for paying off that debt and what may be borrowed in the future. The idea—to put it as simply as possible—is that for every dollar borrowed and spent by the government MORE than a dollar in national income can be created. Hence the State can tax back the dollar originally borrowed plus something more which can be applied to the liquidation of previously contracted debt, leaving a gain in national income. Thus through continual borrowing in the future, the state in America would in time completely pay off the national debt, while at the same time creating net additions to national income which would assure every American of adequate purchasing power to achieve security and comfort. It is a beautiful theory—but it didn't work out that way in Italy or Germany. Even as a theory most economists snicker at it. Mr. Wallace's economy would simply commit government in America to a constant increasing of the public debt. Deficit financing would thus gnaw away at its roots until national credit became exhausted. When that happened some form of communism would be practically certain. A liquidated capitalism followed by a bankrupt Fascism would leave only one road left to travel—the road to Moscow.

3. The entire philosophy of Mr. Wallace rests on a false assumption. It is that competition has demonstrated its unworkability and must be supplanted by a new principle—the planning of production

on an arbitrary basis. The broken-down condition of capitalism today in the United States and the inability of the system to recover from the depression of 1929 is not chargeable to the operation of competition in business, but to the success of business men and labor leaders in expelling it from the economic system.

4. Competition is itself a way of planning production. The competitive planning of production alone provides a way for the production of abundance within a framework of free government. It is the only way that production can be planned if free government is to exist in a nation. This way of planning production establishes a relationship between government and business which:

(a) Assures a larger volume of production and hence a higher standard of living for a people than can be either realized or assured under any other way of planning production.

(b) Protects a free government from being transformed into an autocracy.

The principal economic function of government in a capitalistic system is to devise and enforce rules which prevent anyone engaged in business from restricting production. Within the boundaries of these rules business men and workers are free to engage in production. Maximum production is assured because neither private individuals nor government have the power to restrict production. Political freedom is assured because government lacks the economic power to control the voting electorate. Private business carries the employment load and government spending to create employment is not necessary. Nor has government the power to intimidate voters by controlling their jobs, as occurs in authoritarian economic systems.

Now there are two other ways in which production may be planned.

MONOPOLISTIC PLANNING OF PRODUCTION

In a moribund capitalistic system, production is planned by those who control concentrated wealth. As wealth concentrates in a capitalistic system, the economic and political power which stems from it is used to expel natural law from the system. Production is determined by a small group of men who have emancipated themselves from the operation of natural law and who are interested in

the profits which can be derived from suppressing production. In modern capitalism, private monopoly has been largely substituted for competition in the planning of production. This kind of planning results in an economy of scarcity—in a volume of production that is far less than would occur if competition regulated trade. The restriction of production proceeds to a point where what is left of a capitalistic system collapses in permanent unemployment. Government spending becomes necessary to take care of the unemployed while the people still have political power. Government now has the economic power to control political freedom. It is invariably used by some leader or political party to transform a free government into an autocracy.

GOVERNMENT PLANNING OF PRODUCTION

Government planning of production has taken three forms in history. In a monarchical type of authoritarian economy such as the Roman imperial state, the role of government in the planning of production was to maintain an economy of scarcity for the benefit of the plutocracy which controlled the state. The state enforced the right of itself and private groups to exploit the economic system without interference from the people who were held down by the military. Private monopoly, usury and other practices causing production to be restricted but yielding high profits to those employing them were given the protection of the state which was also engaged in the business of exploiting the economy through imperial monopolies and crown lands. Under some emperors, however, the state would assume a more positive role in controlling production. It would fix prices and wages, curb usury, proscribe monopoly or attack other abuses in an effort to increase production for the benefit of the impoverished people. Such a positive role was exceptional. In general the Roman imperial state functioned to protect the right of bureaucracy and business men who stood in the good graces of the emperor to exploit the economic system as thoroughly as possible.

In radical types of authoritarian economic systems found in the modern world, government planning of production has taken two other forms. In each case the role of government in the planning of production is far more positive than that of government in mo-

narchical authoritarian systems. There is the communist form found in Russia and the Fascist form which existed in pre-war Germany and Italy. In both, autocratic government is inescapable. Moreover, in both these types of government planning of production there is no assurance that production will be devoted to raising the standards of living of the people. In an authoritarian economic system those who control the government have the power to do with production as they please. The opportunity, therefore, exists for government to exploit production for the benefit of those who control the government and their friends. In a capitalistic system, government does not have this power. Hence in a capitalistic system there is greater assurance that production will be devoted to improving the economic condition of the people. Competition operates automatically to furnish the greatest amount of goods to the greatest number of people. From the standpoint of experience, the competitive planning of production has raised standards of living for the common man in the world higher than has been achieved by any other method of planning.

5. Any program proposing to make capitalism work in the United States by eliminating competition from business is sheer quackery. Though Mr. Wallace insists that his program is one to vitalize American capitalism, he is talking nonsense when he proposes to do this by banishing competition from the system. The indispensable element in a genuine and workable capitalism is the existence of competition as the organizing force which directs production. Eliminate competition from a capitalistic system and capitalism ceases to exist. Eliminate capitalism and free government cannot survive.

6. There is only one way to make capitalism again workable in the United States. Private business must be put on its own feet, producing under its own income power. No proposal to make the economic system dependent on government spending to create full employment can be a sound remedy for the present condition of American capitalism. Money borrowed by private business in a soundly functioning capitalistic system creates production facilities which provide income sufficient to pay off the loan which gave them birth and which continue thereafter to furnish jobs and desirable goods on their own income-producing power. Government spending to create employment, however, creates in general less desirable forms of wealth which have no power to produce income. Hence

government spending is only a shot in the arm which must be repeated continually with mounting public debt and ultimate national bankruptcy. The way to make capitalism again workable in the United States is to clear away the obstructions to production which have lodged within the system. This means a restoration—not the elimination—of competition as the regulator of trade and commerce.

CHAPTER XIII

THE ROAD TO FREEDOM

FOR the people of the United States the problem of international security in the post-war period must not be permitted to obscure the more important problem of protecting our democracy from the economic forces which were threatening its life before Hitler arose to disturb our peace. Before another war could come to our shores, it is possible for our democracy to become lifeless. Should this happen, international security, if achieved, would be valueless. International security is worth while only as it would operate to *protect freedom within our country from aggressors without.*

ECONOMIC FRAMEWORK OF POLITICAL FREEDOM

Free governments do not appear in history until economic conditions favorable to their existence have appeared. Once a free government has emerged, the chief duty of such a government is to maintain the economic conditions which are vital to its existence. If, neglecting this duty, it permits economic conditions to generate which are unfavorable to freedom, a free government, like a plant in a poisonous soil, will wither and die. What are the economic conditions indispensable to the life of free government?

Democracy cannot exist either in theory or fact unless the electorate is *free* to choose a government to represent it and unless the government chosen is *free* to serve the interests of the electorate as a whole. If, in a democracy, individuals can find a way to *control* the electorate and government itself so that government functions to promote their particular interests, democracy will cease to exist. In substance, an oligarchic government will be created even though the empty forms of democracy are retained. Similarly, if the execu-

tive branch of democratic government can find a way to control the electorate and the legislative branch, democracy will degenerate peacefully and legally into dictatorship.

Before an individual can exercise political freedom, two conditions must be present:

1. The individual must be able to make a living. This presumes the existence of opportunity to find a job.

2. Neither government nor private individuals must possess the power to control the individual's opportunity to make a living.

These conditions can exist only in a soundly functioning capitalistic economic system. In such a system, the individual can find work and make a living. Neither government nor private individuals possess the power to interfere with or control the individual's opportunity to make a living. The secret of a soundly functioning capitalistic economy is the *dispersion of wealth and economic power within it.*

If wealth and economic power concentrate within such a system, the capacity of the individual to find work and make a reasonable living will be reduced. On the one hand, a free people will be forced into want and driven into the arms of political bosses. The door will be opened to purchase their political freedom. On the other, the means will exist to buy up the political independence of the electorate, and to control the freedom of democratic government. If wealth and economic power continue to increase in a capitalistic economy, a point will be reached when production in the system will decline to such a degree that government will be compelled to furnish jobs to a considerable part of the population through the device of government spending. At this point, government will possess the economic power to control the electorate. As government spending continues, the oligarchical government created by concentrated wealth is supplanted by dictatorial government which liquidates the economic and political power of the old oligarchy.

When, therefore, a capitalistic economy has reached a point of dependence on government spending, there is only one way to prevent the impending destruction of political liberty. The concentration of wealth and economic power within the economic system which has caused the suppression of production in private business *must be dispersed.* Unless it is dispersed, the economic system will

remain dependent on government spending and political liberty will be either swiftly or gradually destroyed.

THE ISSUE OF FOREIGN TRADE

If capitalism is to be restored to health in the United States a choice must be made between two recovery policies which at the present moment are in violent conflict with one another. Shall the recovery of private business be sought through a further and nationalistic development of our domestic market? Or shall its recovery be attempted through a large expansion of our foreign trade? Currently, the latter policy is definitely in the ascendancy. This policy represents a revival of the classical doctrine of free trade. Its advocates claim, if the nations of the earth will trade freely among themselves through the elimination of tariff barriers everywhere (and a liberal extension of credit by the United States to start the process going), that nothing can prevent the United States and the world growing prosperous together. A brotherhood of men based on a solid foundation of world prosperity is its dominant note. On the practical side, it has the endorsement of many American business men and in high circles of government it is strongly entrenched.

We believe this policy to be extremely dangerous. If the American people put their faith in it, concentrate their energies on the cure-all it promises and neglect to recondition our domestic market for an expansion of business at home, government spending is certain to continue on a large scale in the United States and an authoritarian state will be assured of triumph over our democracy. There never was a time in the history of the doctrine of free trade when its attempted application to our economic interests is more certain to be unprofitable and disastrous. The recovery of private business in the United States cannot be achieved by increasing exports to China or Timbuctoo. It can be achieved only by making it possible for our farmers and manufacturers to do a great deal more business between themselves in our domestic market, behind tariff walls sufficiently high and strong to prevent the outside world from wrecking, at a profit to itself, our efforts to rebuild capitalism in America to a point where the present menace of authoritarianism will be reversed and ultimately routed.

THE AMERICAN DOMESTIC MARKET

Within the four corners of the United States lies the richest market in the world. In normal times it is estimated that as much as 50 per cent of the world's total business is transacted in it. This market is owned by some 139,000,000 Americans. The rest of the world's business is owned by some 2,000,000,000 persons. In our domestic market is an agricultural region completely capable of supplying the American people with an abundance of food and raw materials for manufacture. In it, too, is an industrial region which from the standpoint of either actual or potential capacity to produce is the most powerful on earth. The indisputable fact (though economic internationalists have done their best to obscure it) is that within the continental limits of the United States are all the *raw ingredients*—soil, climate, natural resources, capital, technology, managerial genius and intelligent labor—for creating a capitalistic prosperity that would give to every American family a high standard of living without any *foreign trade whatsoever*. In terms of food, shelter, clothes and recreation America is more self-contained than any other part of the earth.

Now for many years our economic development was preponderantly confined to our domestic market. The development of this market by capitalistic enterprise made the American standard of living the highest in the world. The misoperation of capitalism in our domestic market prevented that standard from rising substantially higher, but the vitality of the system still yielded one that was the envy of the world. Nowhere was education more widely diffused, the health of the people better protected, or the conveniences of the average person more abundant. There was some poverty, of course, in all this progress—black shades here and there on an otherwise bright picture. But compared with other peoples and other eras of history, the American people in their domestic market shattered all previous records for economic achievement. The progress achieved in our domestic market was accompanied by a relatively small amount of foreign trade. This foreign trade was never higher than 10 per cent of our total trade and generally below that percentage. Actually America's dependence on the rest of the world was less than that. A substantial part of our imports consisted of goods and services which could be produced in abundance within the United States

BUSINESS EMBRACES FOREIGN TRADE

In 1929, the continued misoperation of capitalism in our domestic market reached its logical end. The volume of production possible in private business, shackled as it was by numerous restraints on its natural productive powers, became insufficient to furnish employment to millions. Government spending became imperative to avert chaos. The depression of 1929 did not signify that the economic self-containment of our domestic market *could not longer be utilized to continue and increase* the remarkable economic progress that had been achieved in it for a century. It did not mean that American business would have to stake its future prosperity on an expansion in foreign markets. It did mean, however, that the recovery of private business through a further development of our domestic market would be impossible unless the capitalistic system whose misoperation had progressively reduced production in that market was *thoroughly reformed.*

As private business continued in depression after 1929 because of the failure of the New Deal to reform American capitalism and as the productive capacity of American industry continued greatly to exceed the purchasing power of the domestic market to absorb it, business men in America, unable to sell at home, began to adopt the notion that foreign markets offered a solution to their troubles. *It was assumed—and this is the crux of the matter*—by these practical men that the *buying power lacking* in our domestic market could be found in foreign markets. At the same time in other capitalistic markets outside the United States foreign business men, faced with the same shortage of buying power in those markets, were under the illusion that it was to be found in the American domestic market if only our tariff could be gotten around.

The illusory relationship of tariffs to the release of buying power in either the American domestic market or in foreign markets will be treated in a moment. But let us observe clearly the failure of American business men to put a finger on the real cause of the lack of buying power for the potential capacity of American business. Within our borders were all the raw ingredients necessary to afford every American a comfortable living standard. The *sole reason* why before 1929 this potential raw ingredient capacity of our domestic market to supply the American people with abundance

had not been realized was due entirely to the failure of democratic government in the United States to prevent business men from restraining the natural productive powers of our capitalistic system which governed production in that market. No amount of raw ingredients for a capitalistic prosperity can be translated into a high living standard for a people and maintained except by the operation of a soundly functioning capitalistic system. The sound operation of the system is as indispensable a factor in the realization of capitalistic prosperity as the factor of raw ingredients. Today the only thing that stands between the American people and the realization of capitalistic abundance—the only kind of abundance which can sustain democratic government—is a broken-down capitalistic system whose natural capacity to produce has been shattered through misoperation. If that system is repaired, the billions of dollars of buying power which our business men hope to find in foreign markets can be discovered to a certainty in our domestic market. But the repair of our capitalistic system which will release this buying power can be accomplished only by the American people under the leadership of their own government. The peoples and governments of Europe, Asia and Africa cannot help the American people to uproot the practices and devices of our own business men which have destroyed buying power and suppressed production between New York and San Francisco or between Chicago and Dallas.

VALUE OF THE DOMESTIC MARKET

The fact that our domestic market is more highly self-contained than any other in the world is of supreme value, for three reasons, to the economic and security interests of the United States:

1. The prospects of war have not been eliminated by the United Nations Charter. That is only a tiny beginning towards a solution of the causes of war. No one can say with any certainty that war can be controlled in the future. No one can soberly reflect on the numerous possibilities that exist for economic and spiritual friction between Russia and the rest of the world without being highly dubious that the world is certain to beat its swords into plowshares in the future. America can hope for the best. It can do its best to promote peace. But it cannot afford to weaken its capacity for self-defense in the uncertain post-war world which is beginning to

dawn. In war the nation with the highest degree of economic self-containment, with an abundance of manufacturing power that can be converted into war factories located close to their sources of raw materials, is in the best position to defend itself from aggression. The self-containment of our domestic market is a military asset of the greatest value.

2. The struggle for world markets has been a predominant cause of war in history. Some nations have had to struggle for such markets. They have had to supplement their limited domestic economies by trading with other nations for the things they lacked at home. In the case of England, international trade offered for a time a rare opportunity to prosper so long as other nations were willing to stay agricultural, to be hewers of wood and drawers of water. But when other nations began to enrich their national life with manufacturing, England began to lose her markets and had to fall back on her domestic market. But all nations that have been either compelled to stake their prosperity on foreign trade, or have done so for reasons of temporary gain, have been forced to protect and fortify their position in international markets by building empires and subjugating weaker peoples, or by making war on nations that threatened to take business away from them. The international trade rivalry between England and Germany in the early part of the twentieth century was a major factor in causing the first World War. In comparison with other peoples, the United States has had a peaceful career. The basic reason for this has been that America did not have to participate in a struggle for world markets which dragged so many other nations into ruinous wars. If in the post-war world America stakes her prosperity on a further development of her domestic market, we are assured of maximum friendly relations with other nations. But if we are to make progress through a large expansion of our foreign trade, America will multiply the possibilities of serious friction between herself and other nations. She will have to become aggressive about protecting that trade against all comers—an aggressiveness that in the light of three thousand years of history may well fail to stop short of war.

3. The capacity of government either to repair or insure the proper operation of a capitalistic system *is greatest when only one government* is concerned and only one people speaking a common language and having common legal and cultural traditions. It is

far less where several governments are involved and several peoples speaking different languages and having different legal and cultural traditions. The repair of capitalism in our domestic market involves only one government and one people. If our future prosperity as a nation is to be achieved through a large expansion of our foreign trade, *the result will necessarily be* to expose the regulation of our capitalistic economy to outside interference, to give other nations the power to nullify or thwart our regulative efforts, and to complicate the whole vital problem of providing our capitalistic economy with adequate regulation.

WE HAVE NO OTHER CHOICE

If the recovery of our private business is achieved through a large expansion of our foreign trade the present high degree of self-containment of our domestic market will have to be sacrificed. There is no way greatly to expand our exports without ultimately taking in payment for such exports goods that can be produced abundantly within the United States. This will mean the crippling or destruction of industries either useful or vital to our national defense. We will become dependent to a high degree on the rest of the world for our prosperity. That dependency will be certain to draw us into serious trade conflicts with other nations, weaken our military capacity to back up our just claims in such controversies and expose capitalistic enterprise in the United States to a dangerous control from the outside.

What would we gain from all this sacrifice? We are told that through the free development of international trade the United States and the world will grow mutually prosperous. If we could be certain of this, if we could be sure that through an expansion of our foreign trade, private business in the United States would rebound to full recovery and that the present dangerous pressure of government spending on our democracy would be relieved, the disadvantages of scuttling our domestic market *would at least be offset by this gain.* If, in other words, our capitalistic economy could be restored to health either through a further development of our domestic market or through a large expansion of our foreign trade, America would be confronted with a genuine choice. However, no such choice exists. There is actually no possibility of expanding our

foreign trade sufficiently to produce a sustained recovery of private business in the United States. Under economic conditions existing in the world today free trade is a sheer delusion. The only choice open to us is to buckle down immediately to the task of promoting a further expansion of our private business in our domestic market through a reform of capitalism at home.

REALITY VERSUS IDEALISM

The case for free trade that is so alluringly presented at the present hour hangs or falls upon the validity of two assumptions:

1. That tariffs will be lowered and eventually eliminated among the nations of the world.

2. That the lowering or even elimination of tariffs in the world would make trade free.

For the nations of the world to trade freely among themselves, certain conditions must be present. Within each nation trade must be free. This means that each nation must have a capitalistic economy in which economic activity is in general governed by competitive forces. The elimination of tariff barriers merely extends the area of business competition. Through their elimination, the business men of nations seeking to trade freely among themselves are *free* to buy and sell for a profit under competitive conditions in the domestic markets of each. Without such freedom of trade it would not be possible to bring about the specialization of production and distribution in the world which according to the classical doctrine of free trade is the fundamental reason why international trade is desirable and profitable.

But at present a large part of the earth is definitely committed against the whole idea of free trade. Consider Russia. Russia occupies the largest part of Europe and Asia, and Russia has an authoritarian economic system. In such a system there is no freedom of trade in the domestic market. Competition does not exist as a regulator of economic activity. All economic activity in Russia is planned and rigidly controlled by the Russian government. To protect its arbitrary control of all economic activity in the domestic market, government in an authoritarian economic system prohibits free trade at the custom house. The government arbitrarily decides what goods it will admit from the outside and in what amounts. In

Russia, industries capable of adequately supplying her domestic market with goods are given one hundred per cent protection whether their costs of production are high or low. In effect Russia maintains a prohibitive tariff at the custom house—a tariff that restricts the free movement of international trade far more effectively than our tariff. The American tariff does not interfere with the freest movement of goods and services into the United States which are not produced within our borders. Nor does it flatly prohibit the entrance of goods and services from the outside which are produced in the United States. On such goods and services foreign producers have been merely compelled to submit to a tax which seeks to equalize their lower costs of production with the higher costs of domestic producers who pay more liberal wages than are paid in other nations. But in Russia goods and services produced within her boundaries to a reasonable degree are rigidly excluded from entry. Even on commodities not made within Russia, the Russian government decides arbitrarily what kinds will be admitted and the amount of each that will be taken. An authoritarian economic system is automatically a noncapitalistic and high-tariff economy, and free trade with any nation having such an economy is impossible.

Russia is vitally interested in the idea of economic self-containment—the very same idea which is at the present hour being denounced so vigorously in America as the cause of all the world's trade ills. Now clustered about Russia in Europe and Asia are other economies either already authoritarian in their structure or drifting ominously in that direction. These economies are in great danger of becoming satellite economies of Russia because an overwhelming part of Europe and Asia are at the present moment well within the clasp of the Bear. In some cases Russia has already taken over neighboring economies by force. In others, the prospects of internal economic chaos are so imminent that the ideology of the Hammer and the Sickle has more than a fair chance for success. Under Russian leadership, therefore, a very large part of the earth's surface is more than likely to become a totally unfree trade area. This Russian sphere will strive for economic self-sufficiency. It will be glad—in fact it will be eager—to obtain from us goods that it needs—goods that will help it on the road to achieving self-sufficiency. But in what kinds of goods will we be paid? For a number of years no payment will be possible. Production in both Europe and Asia has

been so destroyed by war that there is no possibility of the Russian sphere producing any surpluses with which to make payment for a number of years. At the present moment more than one hundred fifty million acres of the best farm land in Russia is completely out of commission because of the scorched-earth policy applied by the Germans, and everywhere in Europe the damage to factories has been enormous. Consequently, if we do business with the Russian sphere, we will have to extend credit, and if we attempt to do any considerable amount of business we will have to lend billions. To our business men who dread the cessation of the war orders which have kept them alive and to our government which is highly worried about the returned veterans and unemployment, trade with a Russian-controlled Europe and Asia is alluring. This sphere is at present—and will be for a number of years—in need of almost everything we produce. For a time, therefore, the ultimate disadvantages of trade with it will be postponed. But as we repair the factories of these countries and add many new ones, as we provide the mechanized power for their agriculture and mines, as we rehabilitate their forests and their homes, a point will be reached when this area will be in a position to start repaying our loans. But in what kinds of goods will payment be made? The conclusion is inescapable that we will have to take payment in goods that we do not need—goods that can be produced abundantly within the United States—in fact goods that we shipped to this area to *effect its rehabilitation*. At this point the unsoundness of our trade with that sphere will come home to roost. Industries which had been working at top capacity to provide the goods it needed will find that their markets have begun to decline. This decline will accelerate as a Russian-dominated Europe and Asia becomes more and more self-contained. Ultimately the stimulus given American industries will cease and those industries will be back in depression. Their progressive decline will be aggravated by a mounting influx (if we take payment) of goods which will enter into competition with industries in our domestic market. The prices of these goods can be manipulated to bankruptcy levels, since in an authoritarian economy the government can put any price it wants to on its exports. Certainly, such goods will be priced low enough to invade successfully our domestic market. The result will be the impairment or destruction of industries important to our

national defense, and a serious aggravation of a general decline of trade in our domestic market which will force our economy back on direct government spending more firmly than ever. This will happen if we permit our loans to be repaid. The chances are that we would find repayment too costly and that we would permit those loans to go into default and eventually cancel them. If we do that we will in effect have given away another large slice of our natural wealth. We will have made a Russian-controlled Europe and Asia admirably prepared to wage war or to finance on a colossal scale the propaganda of communism. Our own private business will be still in search of a sound recovery program, with the excellent prospect that such a program will be unnecessary because capitalism will have succumbed to an authoritarian state in America.

Though trade with Russia and her satellite economies have no possibility of being profitable to us in the long run, we will nevertheless engage in this trade and probably on a large scale. The temptation to create temporary employment and temporary profits through that trade will be irresistible to our business men and our government. All we hope to do is to point out that we must not close our eyes to the fact that this trade offers no physical possibility of bringing about a sustained recovery of our private business, and that if we do embark upon this trade we must not neglect the only sound possibility that does exist for doing this—the reform of capitalism in our domestic market. If we will soundly clear away the obstructions to production that exist in this market, capitalism and democracy can be saved in America, whatever our losses on trade with Russia.

THE REST OF THE WORLD

There remains that part of the world outside of the United States which still tolerates capitalistic enterprise but which is also drifting seriously in the direction of authoritarian controls. Can free trade be realized in this area, assuming that a large part of it does not succumb to the spread of authoritarianism? The principal part of this trade area is occupied by the British Empire. For many years England has carefully developed a system of preferential trade within the Empire which is thoroughly protected by tariff walls. The purpose of this preferential trading is to make the Empire a self-suffi-

cient economic unit in the world. Will England be willing to lower or eliminate the system of Imperial tariffs, to scrap the whole idea of self-containment? There is no indication that she will, and some of her spokesmen have said that she will not. Like Russia, she will be willing to take from us goods needed to increase the self-sufficiency of the Empire and to pay us in goods that we do not need. If this is to be the policy of England, then trade with the British Empire will have the same unprofitable limits as trade with a Russian-controlled Europe and Asia. We can help the British Empire to become admirably self-contained by sacrificing our own self-containment and we can watch that trade grow progressively smaller as the self-sufficiency of the Empire increases. But suppose England is willing to abandon the idea of economic independence. Suppose that everywhere in the world where capitalistic enterprise still persists or is likely to persist (and we will include China though the prospects that Russia will control China are unusually bright), tariffs are leveled away. This result would still not cause any appreciable or sustained expansion of total production in the United States.

A tariff is only one way to restrain trade. Behind our own tariff walls lies, theoretically, one of the greatest free trade areas in the world. No state of the Union is permitted by the Constitution to erect tariff walls against any other state. Yet the movement of trade and the volume of production in this area has been thoroughly restricted and reduced by other methods which the economic and political power of concentrated wealth has been able to employ. Our business men and labor leaders, by building monopolies, frustrating technology, erecting preferential freight rates on our rails, burdening production with unnecessary costs, establishing excessive public utility prices, controlling credit and in other ways, have *effectively restrained trade and suppressed production behind our tariff walls.*

Beyond our tariff walls where capitalism still existed before the recent war, wealth had also concentrated to a severe degree. Wealth was highly concentrated in England, China, in the Dutch East Indies, in the developed parts of Africa, in Australia and throughout the length and breadth of South America. These concentrations of wealth had caused international capitalism to be misoperated in the same way that it had been misoperated within the United States. They had created powerful international monopolies, suppressed or frustrated technology, imposed excessive transportation charges on

the trade of the world and accomplished all that had been done to American capitalism. Consequently in the sphere of international capitalism, *buying power and production had been severely suppressed.* At the same time those engaged in suppressing production in international capitalism had in many instances gone into partnership with those engaged in suppressing production within the United States. American monopolists and international monopolists had gotten together in numerous agreements allocating among themselves the markets of the world and insuring that our export trade would not run wild and disturb the control of the production of many important products.

Everywhere in the world before the recent war, where capitalism existed, there was the same basic condition, irrespective of tariff barriers—restricted production in terms of the physical means of production—raw materials, plant facilities, technology, capital and labor. Abolishing tariffs would have no curative effect on the power of concentrated wealth to continue the suppression of production both within the United States and in international capitalism. The lack of buying power behind our tariff walls is not to be made up in capitalistic nations outside of them. This dearth of buying power among capitalistic nations is not due to the existence of tariffs to any appreciable degree. The elimination of tariffs as a remedy for reviving the buying power that has been suppressed within America and in international capitalism by methods of control other than tariffs would be *like untying a man who is already paralyzed.* The mere joining together of broken-down capitalistic economies by removing tariff barriers could not result in any large and sustained expansion of production either here or abroad. There would be no possibility of soundly expanding production in the proposed tariffless order without reforming capitalism both within the United States and internationally.

The reform of capitalism within the United States presents a staggering task. The reform of capitalism on an international basis would present a far more staggering task. A program for freeing the productive powers of international capitalism would not stand a ghost of a chance for successful application unless it were applied by a strong common government in which nationalism would be practically extinguished. The various nations still tolerating capitalistic enterprise would have to surrender to such a government

their present nationalistic powers to regulate trade. If they retained such control the temptation would be irresistible for local enforcement to favor local trade interests against those of the outsider. The creation of such a common government at the present moment is certainly not a practical proposition. One need not be an international pessimist, for instance, to know that England would not consent to hand over the regulation of her domestic and international trade to any international government. But even if such a government could be created, the size of the task of reform would doom it to failure. The vastness of the area to be regulated, the conflict of languages, customs and traditions, the remoteness of such a government from the peoples it represented, putting as this would a premium on corruption, would bog such a government down in either incompetency or maladministration.[1]

More important, even if the reform of capitalism on an international basis had a chance for success, this method would take too long to relieve the present dangerous pressure of government spending on our democracy.

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[1]The misoperation of capitalism in international markets has precipitated a political crisis in England. Democracy in England is facing the same crisis that confronts our own democracy. Capitalism in England has become completely dependent on government spending. In England, too, this government spending is also being rationalized as a sound method for promoting the economic interests of the English people. The so-called Beveridge plan advocates permanent spending by government on a large scale after the war and also proposes that government should concern itself with planning production. The Beveridge plan is practically a duplicate of the one proposed by our National Resources Planning Board as far back as 1939. Both plans are in substance an embodiment of the same economic philosophy actually applied by Hitler and Mussolini in Germany and Italy with such disastrous consequences to parliamentary government in both these nations.

What can America do to help democracy in England survive its crisis of government spending? It is tremendously important to America that English democracy survive in the post-war world. Lowering our tariff cannot soundly nationalistic effort in each nation. The British Empire has an abundance of government spending on English democracy. English leadership, in the last analysis, must do for capitalism in England what American leadership must do for capitalism in America. The economic basis of free government in America and England can be prevented from permanent collapse only by a nationalistic effort in each nation. The British Empire has an abundance of raw ingredients for a high level of capitalistic prosperity and one that would easily make it possible for private business in England to recover to a point where the necessity for government spending would cease. But the Empire lacks a soundly functioning capitalistic system to translate those raw ingredients into prosperity. Capitalism within the British Empire has broken down for the same reasons that it broke down in America. This deficiency can be supplied only by British leadership which will bring about a thoroughgoing reform of British capitalism within the Empire, and must be supplied if democracy in England is to survive.

NO ISSUE OF ECONOMIC ISOLATIONISM

The illusory prospects of bringing about a recovery of private business in the United States through the lowering or elimination of tariffs in the world does not mean that America must pursue a policy of trade isolationism. The United States never has done that and in the post-war era a certain amount of foreign trade will be possible and desirable. We can trade for goods we need and pay in goods that other nations need. This kind of trading will be sound and profitable to us and to the world.

It does not mean that America should not assist the economic recovery of other nations in the post-war period. We can do a certain amount of relief but we must not let ourselves be lulled into thinking that assistance to other nations can form the basis of any sound recovery program for capitalism in the United States.

It does not mean that America should refuse to take part in any world organization to promote peace. On the contrary, we should be willing to join and work sincerely for the best interests of such an organization provided we are not asked to place our sovereignty as a nation under the voting control of other nations.

But it does mean that we must seek the recovery of our private business primarily in our domestic market and that in the task of repairing capitalism in that market we must not be less intelligent than Russia in affording adequate tariff protection to all goods that can be produced abundantly within our borders. This does not require that we encourage the production of goods at prohibitive costs. But we should not sacrifice domestic industries to foreign industries simply because their costs of production are higher than industries abroad. Costs of production are generally higher in the United States because our business men pay higher wages, and because of other factors such as the quantity and velocity of money in circulation. The fact that a foreign industry can offer goods at a lower price than a domestic industry is not a valid reason for sacrificing the domestic industry. The paramount job before the American people is to rehabilitate capitalism in our domestic market, and we cannot do that if we expose our economy to price dislocations from the outside. Our tariff is not actually a restraint on trade. *A bona fide restraint on trade limits production.* Our tariff, by confining our trade to a market in which the adequate regulation of that

trade by government is possible, operates to increase production. Without our tariff, the indispensable factor of government regulation of capitalistic enterprise would be impaired to a point where production would be throttled by many other devices than that of a tariff.

REFORM AT A PROFIT

The reform of capitalism within the United States is no small task. No free people in history have ever rescued a capitalistic system afflicted with the cancer of concentrated wealth, and saved freedom. Peisistratus, apparently, did perform the miracle of reconditioning the broken-down Athenian capitalism of his day thousands of years ago, but he performed it as a dictator and probably did not understand that he was releasing economic forces which would blast his tyranny out of Attica. Invariably under free government when capitalistic systems have reached crises of unproductiveness the wrong remedy—government spending—has been applied and pursued until capitalism and freedom perished together in an authoritarian state. The genius of the American people may triumph where all others have failed, but the reform of American capitalism cannot be accomplished without intelligent and determined leadership by government and sincere cooperation from business men, workers and farmers.

The proposal to reform an economic system has always been resisted by those profiting from its exploitation. But the wreckers of economic systems have never been wise men. All economic systems reach a point in their evolution when, from cumulative exploitation, they begin to disintegrate. When that point is reached reform alone offers those profiting from suppressed production in the system a chance to salvage a substantial part of that which is dearest to their hearts—the material fruits of their exploitative work. By failing to take note of that critical point in the life of all economic systems when reform will pay handsome dividends in dollars and cents, plutocracies have resisted reform and gone down in ruin.

Every order of wealth, however, that has stood on the brink of disaster has had within its ranks a few men of vision who have openly advocated reform. On the eve of the French Revolution, for instance, it is recorded that a group of intelligent nobles took counsel together. The people of France were starving, but the eco-

nomic causes of their plight were obvious to this intelligent group. How could the people eat when most of the land was held by the few and much of it standing idle? How could the peasant feed himself or the proletariat of Paris when his plot of land was so small and his taxes so onerous? How could he even work his tiny plot when a part of the week he was forced to labor on his Lord's castle or chateau (the corvée), adding a new wing or beautifying its gardens and terraces? The men of this group pledged themselves to reform. Now they may have been genuine humanitarians, but it is certain that they were forward-looking and realistic. Unless the economic system was reformed they foresaw disaster to their class and to their own personal fortunes. But it was too late—the French Revolution had begun. The economic forces which it released caused ultimately the liquidation of the old plutocracy.

Here in America, at the present hour, another social and economic order is verging towards bankruptcy and liquidation. The French Revolution abolished despotic government, moved the world and mankind towards freedom and economic progress. It wrought its work in blood and murder, but out of carnage came progress. Today in America the basis for violent revolution does not exist. The people are not starving. On the contrary, they are enjoying more prosperity than they have ever known. The revolution which hangs over the head of America portends no use of violence. It is a deadly, silent, little-understood drift of affairs whose ultimate goal is autocracy but whose methods are peaceful and baited with the illusion of economic gain for the people. This revolution has not yet reached a point where it is consciously directed and managed by government, but the economic system is geared to bring it into that phase and to assure its triumph.

America needs a conference of all groups who are profiting from the exploitation of the economic system, with enough vision to begin on a voluntary basis the abandonment of practices and devices which are making it impossible for the system to produce. All stand to gain and none to lose.

Political victories insured by government spending are not profitable to politicians, as a class, if they lead to the triumph of the authoritarian state in America.

The power of capitalists to restrict production in private business is no longer advantageous to their own material interests.

The policies of workers and farmers which have hiked costs of production, pegged prices, restricted acreage and created a temporary prosperity will ultimately lead them into slavery and standards of living permanently lowered to a bare subsistence.

Capitalism in America has now reached the critical point in its evolution when the reform of the system is a mutually compensative business to those who are exploiting it. In other periods of its existence, reform was not so profitable. It was more profitable to exploit the system. The system could be exploited, the exploiters could be enriched without danger that their plunder would be disturbed by a *change in the nature of government.* In earlier periods of American capitalism, a man could plunder his way to great wealth by stifling productive power in the system and die happy in the thought that his descendants would enjoy his booty in a free society. Today this happy state of affairs for plutocracy is no longer true. For thousands of years capitalistic systems have reached a point of misoperation where, unreformed, they have caused the material ruin of those who were profiting from their misoperation. They have precipitated authoritarian states, and under autocracy the old plutocracy which destroyed the pre-existing free government, has been in turn liquidated by a new plutocracy, while labor was forced into slavery and destitution.

The effect of authoritarian states on the material interests of the rich men who amassed their riches by exploiting defunct capitalisms has always been totally destructive. An authoritarian state automatically creates a new and more powerful plutocracy than that which existed under free government—the officialdom which operates it. This new plutocracy has either quickly or in time appropriated to itself the wealth of the old plutocracy.

Thus within a short time after the autocratic government initiated by Octavius in ancient Rome swung into action, the wealth of the old plutocracy had been seized by a new, obscure and upstart plutocracy which had cultivated the friendship of the Emperors and used the power of government to promote its material interests. Crassus, for instance, had been the richest man of the Republic, but under the Empire we hear of far greater fortunes amassed by obscure men like Narcissus, the ex-slave, who made himself the counselor of an Emperor.

The Empire was the age when nobodies rose quickly to great

offices, high commands, and finally to the purple in their pursuit of wealth, displacing and finally obliterating the old order of wealth which had existed under the Republic.

Under the autocratic government created by Cosmo di Medici, a host of his henchmen, previously underdogs, quickly reached out for the riches of the old plutocracy and took them.

Under the dictatorship of Napoleon, a flock of nobodies became quickly rich by using the power of autocratic government to pluck the riches of other men.

In modern Germany and Italy, authoritarian states immediately produced new plutocracies—party leaders and government officials who lost no time in dispossessing the old plutocracies of Republican Germany and Italy of their fine houses and material possessions.

THE GAIN OF CAPITAL

What has the rich man in America today to gain from a reform of our capitalistic system? Today capitalism is a disintegrating and dying system in America. For *thirty-one* years the system has lived *continuously* off artificial respiration—the respiration of unsound private and public credit—and is, at the present moment, hopelessly dependent on government spending.[1] Short of effective reform the system cannot avoid liquidation by an authoritarian economy. Such an economy will create an authoritarian state and in such a state the accumulated wealth of the men who exploited capitalism to its death will be captured by a new order of wealth seekers. The weight of all human experience is behind such a prediction. Only the type of foolish plutocrat who for centuries has been periodically losing his shirt through his blindness to the necessity for reform, will ignore it.

What will the rich man gain by the reform of capitalism? The answer is, *"Probably a substantial part of all the wealth he has now amassed through the exploitation of the system"* plus the advantage of having his children and his children's children live in a free and economically productive society in which, even if their inheritance

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[1]War savings will temporarily provide the economic system with the buying power to sustain employment in private business. But such savings are themselves the result of enormous borrowing and spending by government, and when they are used up large scale government spending will again become necessary to avoid a collapse of private business in unemployment.

is spent or dissipated, they will have the chance to make a decent living. The legacy alone of a free and productive society where one's children may earn a reasonable living and live without fear of exploitative government, is a prize far richer than that of the inheritance of mere millions. The reform of capitalism does not mean that the rich will be expropriated. Its purpose is to destroy only the network of controls which predatory interests have established in the system and which prevent production. The breaking up of such controls will not destroy an iota of physical property owned by the rich. The abolition of such controls will, of course, destroy the excessive incomes derived from their use. But the physical property left in their hands will for the most part be capable of earning a fair return on its fair value. Such earnings will be considerable.

It cannot be denied that, if the natural productive powers of the economic system are liberated, the physical property now held by the rich will be exposed to new ideas and new competitors. Part of it will not survive in a fair competitive struggle. Certainly, with an expansion of productive power in the economic system, the percentage of national wealth now held by the rich will decline. Present gross inequalities in wealth will tend to disappear. But making all reasonable allowances for losses which will be incurred by the restoration of the economic system to productivity, the chance is highly probable that a sizeable part of the wealth of rich men in America today will be profitably salvaged. That wealth invested in an expanding economy will be more securely protected than in a contracted one which today is drifting steadily and unavoidably towards authoritarianism. Finally, whatever the losses to the rich caused by new competitors and new ideas, there is the compensative prize of a free and productive society.

GAIN OF THE WORKER AND THE FARMER

What will the worker and the farmer gain from a reformed capitalism? The answer to that is, *"Greatly improved living standards which will flow naturally from increased production in the economic system and the preservation of freedom."* What would they lose under an authoritarian state? The answer to that is, *"Both freedom and improved standards of living."* Under all authoritarian states, labor and agriculture lose the power to agitate and organize for the

economic advancement of their group interests. When that power is gone what means are left to such groups to promote their economic interests? The answer is "none." The worker and the farmer become pawns of autocracy. Does autocracy use them well, advance their standards of living? It never has in the history of the world. But isn't modern authoritarianism something morally different from its ancient brand? The fact is that all authoritarian systems, whether ancient or modern, are geared for exploitation and that exploitation is only a matter of time. In the next chapter the authoritarian delusion of abundance in the modern world will be discussed.

SOME PROPOSALS

American capitalism is overrun with practices and conditions which repress production and stifle sound investment outlets. These have been the result of fifty years of sterile democratic government in the United States. They pose numerous problems calling for remedial action. Even a list of such problems with a brief explanation of how productivity in the economic system is affected would be too extensive to include here.

The liberation of the productive powers of the economic system is not a job for a day, a month or a year. It will take a number of years of intelligent and sustained effort to produce any substantial results. If reform is applied, the progress of the system towards recovery will at first be slow and discouraging—like the recovery of an individual from a nervous breakdown. Persisted in, improvement will become apparent and the recovery of the system is possible.

A program for reforming American capitalism cannot be the work of one mind. It must be the result of the cooperation of many minds. Some lines of attack which will strike at the release of productive power and investment outlets in large quantities may be indicated, and some problems that must be considered may be raised.

RESTORING COMPETITIVE MANAGEMENT IN INDUSTRY

The natural productive powers of American capitalism cannot be repaired unless *competition* is restored as the chief regulator of production and distribution. Maximum production in a capitalistic

system cannot be realized unless competition operates simultaneously at various levels in it. Specifically, it must operate at three levels:

1. *Competition must operate at the level of management in investment, industry, agriculture, distribution and transportation.* Bankers must act competitively in the marketing of long- and short-term credit. Management must act competitively in industry, agriculture and distribution in determining the prices of industrial and agricultural products. Management must act competitively in the determination of transportation rates.

2. *Competition must operate at the level of labor.* Labor must act competitively in the determination of its wages whether such labor is engaged in industry, agriculture, distribution or transportation.

3. *Competition must operate regionally in a capitalistic system.* Producers in one region of such an economy must not be prevented from competing with producers in other regions. It is through *regional competition* that the units of production are efficiently located. The efficient location of production in turn reduces distribution costs.

Now if competition is suppressed at any of the above levels (or in divisions of a level) in a capitalistic system, production in it will be *automatically reduced.* Less production will result because maximum production and a maximum exchange of goods and services in a capitalistic system are *directly dependent on the level of prices which exist.* At any moment of production in a capitalistic economy there is a certain volume of purchasing power (money income) with which to buy what has been produced. The greater the capacity of this income to buy, the greater will be the volume of production and vice versa.[1] But the capacity of this income to buy is *contracted*

[1]In a capitalistic system that is making real progress, prices tend to fall continually in relation to existing buying power because of the introduction of more efficient methods of production. As competition and technology lower prices, buying power is expanded in the economy, causing an expansion of production and a rise in the standard of living.

In a capitalistic system, however, where production is declining and the standard of living is falling, one of two basic factors is at work. Prices are rising either because of an exhaustion of natural resources which technology cannot prevent, or because of the spread of monopoly in the system. Where natural resources approach exhaustion, costs of production will be increased. Increased costs of production will be reflected in higher prices which will contract existing buying power. Less will in consequence be produced but the decline in production will not cause unemployment so long as workers are able to live off of what they are able to buy with their wages. The existing working force will continue to work full time, merely turning out less goods

or expanded by the movement of prices. If prices are higher than they would be under competitive conditions, in production and distribution, either in the system as a whole or in parts of it, existing buying power *will buy less goods and services.* Where prices have been raised above their competitive level on goods and services classified as necessities, consumers will tend to buy the same quantities at the higher prices. But in doing this consumers will have *less income* to spend on *other products.* Consequently consumers will buy less of other products, which will immediately cause a decline in their production. Where prices have been raised above their competitive levels on goods and services not classified as necessities, consumers will buy less of them thus curtailing their production. Otherwise consumers would be compelled to curtail their purchases of necessities.

The inescapable result in a capitalistic economy of prices higher than they would be under competitive conditions, therefore, is to reduce production. Raising prices above their competitive levels, it should be stressed, CANNOT increase total buying power, on which the volume of production depends. The certain effect of such increased prices is to contract existing buying power and production.[1]

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and services. Unemployment will be averted because the existing supply of workers will be necessary to turn out the lessened volume of production. Existing buying power merely buys less goods and services at the higher prices, but relatively full employment will continue.

Where, however, monopoly is the factor causing prices to rise in a capitalistic system, a different result will occur. The rise of prices caused by the spread of monopoly will contract buying power. Less production will result. But because *costs of production have not risen,* the reduced volume of production can be turned out *with a less number of workers.* Monopoly thus causes unemployment and the more monopoly spreads in a capitalistic system the greater the ultimate unemployment in the system.

[1]The growth of monopoly controls in a capitalistic system may for a time be accompanied by an expansion of production in the system. This may sound paradoxical if it is true that monopoly always results in a contraction of buying power and less production in a capitalistic system. Actually this is not the case. The expansion of production may be caused by the growth of new industries or by an expansion of old ones as new settlements are opened up in a Western frontier, as occurred in the United States. Or the expansion of production may be caused by the lowering of prices in industries which have not been subjected to monopoly controls and which function competitively. For a time the lowering of prices in such competitive industries may operate to *more than offset* the contraction of buying power caused by the advance of monopoly. The competitive industries by lowering prices may increase the total volume of buying power in the system in spite of reductions in that buying power caused by the monopolistic raising of certain prices. To make this clear let us use a simple but arbitrary example. Let us assume that consumers have been buying 1,000,000 units of a product classified as a necessity at $1.00 a unit. Assume then that monopoly controls are introduced

Briefly let us see how the suppression of competition at any level of a capitalistic system or within any level will operate to restrict production. If monopoly controls are established at the level of management in investment, bankers will charge excessively for the use of credit or capital. An excessive charge for capital will increase costs of production and prices in industry, agriculture, distribution and transportation. The resulting higher prices will reduce buying power and cause a contraction of production. If monopoly controls are established in industry at the level of management, the prices of industrial products will be forced up. Their rise will reduce the buying power of those engaged in agriculture, transportation and distribution and cause a contraction of production. Monopoly controls in agriculture at the level of management will produce an identical result. The rise in the prices of agricultural products will reduce the buying power of those engaged in industry, transportation and distribution, and curtail production in general. Monopoly controls in distribution at the level of management would raise the prices of both industrial and agricultural products to consumers and reduce the buying power of those engaged in manufacturing, agriculture and transportation. Less production would be the consequence. If monopoly controls are established at the level of manage-

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into this industry so that the price of the product is raised to $1.25 a unit. If prices in competitive industries remain unchanged, consumers will continue to buy 1,000,000 units of this product, but the extra $250,000 spent on this product will be deducted from other products less needed, causing a decline in their production. But let us now assume that on another product, not classified as a necessity, consumers have been buying 1,000,000 units at a dollar a unit and that due to the introduction of more efficient methods of production in this competitive industry the price per product has been reduced to fifty cents a unit. Consumers would then be able to buy 1,000,000 units for $500,000 instead of for $1,000,000, realizing a net gain in income of $500,000. If this happens there will be an increase in total production. Consumers will be able to pay $250,000 more for the product classified as a necessity, purchase 1,000,000 units of the product not classified as a necessity, and have $250,000 more buying power with which either to buy more of the one or the other or to buy more of other products. Of course, but for the introduction of monopoly controls in the industry making the product classified as a necessity, total buying power would be increased by $500,000 instead of by only $250,000 and a larger increase in production would occur.

In the development of a capitalistic system, however, a point will be reached when there will be a decline in new industries and frontier expansion and when the contraction of buying power caused by the spread of monopoly controls in the system *will exceed the capacity of surviving competitive industries to offset it by price-reductions.* There will then be a net and sustained loss in buying power in the system and if monopoly continues to grow production will ultimately be reduced to a point where private business in such a capitalistic economy cannot avoid large-scale and permanent unemployment

ment in transportation, higher transportation would immediately and to a substantial degree increase costs of production and prices in industry, agriculture and distribution, causing a contraction of buying power and production in general. If monopoly controls are established at the level of labor in industry, distribution and transportation, wages will ultimately be raised by raising industrial prices and transportation rates. The buying power of agriculture will be immediately reduced and production in general contracted. If monopoly controls are established at the level of labor in all industries including agriculture the contraction of buying power and production will be intensified. Finally, if competition is suppressed between regions in a capitalistic system, production will tend to be located and preserved at high cost points. Distribution costs will in consequence be increased. Higher costs in production and distribution will lead to higher prices and less consumption and production.

One word of caution. The suppression of competition at any level in a capitalistic system or within any level does not necessarily mean its total suppression. Monopoly controls are rarely one hundred per cent effective. A substantial suppression of competition at any level of a capitalistic system or within any level is sufficient to curb production in general.

Now up to 1929 substantial monopoly controls had been established in American capitalism *at the level of management in investment, industry and transportation.* Regional competition had been effectively suppressed by a system of discriminatory freight rates on railroads and by numerous state laws designed to restrain the free movement of inter-state trade. In distribution—the distribution of both manufactured and agricultural products—monopoly controls at the level of management had developed but not to the same degree as existed in investment, industry and transportation. Only the farmer and the worker continued to act competitively in striving for profits and wages and both became the victims of a capitalistic economy partly competitive and partly monopolized. The farmer selling in competitive markets his products and buying in a monopolized one (industry) his farm equipment and conveniences found his income depleted and his standard of living exploited. The restriction of production in industry deprived labor of jobs and an increase of production which would have augmented wages. The suppression of competition in investment, industry, transportation

and regionally *was sufficient to shatter the capacity of private business in American capitalism to carry the employment load.* Under the New Deal substantial monopoly controls were introduced into the system at the levels of *agricultural management and industrial labor.* At the same time monopoly controls at the level of management in the distribution of manufactured and agricultural products continued to spread.

Today American capitalism is *so shackled by monopoly controls that the recovery of private business is physically impossible without their removal.* The system is so saturated with prices above their competitive levels that the volume of production of private business which can *be sustained by existing buying power will be inadequate to afford employment to millions of Americans.* The spending of war savings may temporarily conceal this fact. When they are gone the system will immediately become dependent on large-scale government spending to fend off wholesale unemployment. But if the system is to be repaired by a removal of the monopoly controls which now doom it to under-production, their removal must be thoroughgoing. For example, it will do no good to enforce the anti-trust laws against management in industry or transportation without also eliminating the monopoly controls which have been established at the level of labor in industry and transportation. No matter how much management may be deterred from entering into price fixing conspiracies, if monopoly controls at the level of labor continue to exist in industry and transportation, the result will be that the prices of industrial products and transportation rates will be kept above their competitive level sufficiently to guarantee a continued restriction of production in the system which will prevent the recovery of private business. Similarly, it will do no good to weed monopoly controls out of agriculture unless those controls are also dissolved in industry and transportation and investment. If the maximum productive powers of American capitalism are to be rehabilitated, monopoly controls must be proceeded against on a wide and coordinated front.

A restoration of competitive management in agriculture presents the least difficulties. The monopoly controls established in agriculture are the result of governmental policies. Their elimination is a relatively easy matter of repealing certain laws. But the repeal of such laws presents a problem in timing. Until competition can be

substantially assured at the levels of management and labor in industry and transportation, it would be disastrous to force agriculture to resume competition. Otherwise the farmer would be viciously exploited by management and labor in industry and transportation. If, however, monopoly controls are effectively attacked at other levels in American capitalism, they can be legislatively repealed in agriculture not only without injury to the farmer but to his great gain.

Let us now consider the problem of restoring competition at the level of management in industry—a far more complicated problem than that of restoring it in agriculture.

AN IMMEDIATE EFFORT

An immediate effort should be made to force as much competition as possible into industry as it now stands. A vigorous enforcement of the anti-trust laws would stimulate competition in industry accompanied by a downward movement of prices. But the capacity of enforcement to accomplish this end will depend on the adoption of certain auxiliary policies.

1. An enforcement of the anti-trust laws can deter price conspiracies only if these laws are equipped with adequate penalties. The penalties now applied were designed for an industrial order dominated by small units. They have been inadequate to deter the practice of monopoly in an industrial order dominated by giant corporations. The lack of adequate penalties in the anti-trust laws has been one of the principal reasons why business men have been willing to flout them at will. The present penalties provide for small fines, levied on either the officers of offending corporations or on the corporations themselves, and also prison sentences in addition for the officers. Whether fines shall be imposed on officers or on an offending corporation itself, or whether a prison sentence shall be imposed has been optional with the trial judge. Fines on corporations directly have been ridiculous when the wealth of the corporations fined is considered. A fine of a few thousand dollars on a corporation having assets running into hundreds of millions has been an encouragement to repeat the offense. Small fines imposed on the officers of offending corporations have generally been paid by the corporations and their deterrent effect made farcical. The

imposition of prison sentences on officers has been so rare as to be practically nonexistent. Prison sentences have been meted out to farmers and workers, but business men have generally escaped this punishment. That the present penalties of the anti-trust laws have been a total failure in scaring off monopolists, is a fact beyond dispute.

Now in substance, unlawful monopoly is *theft*. Its profits have always been far beyond the capacity of the common law thief to realize. Under some criminal statutes of our states, an ordinary thief can be sent to jail for twenty years for taking a mere ham. But the unlawful monopolist who has been able to extract millions of dollars a year for many years at a stretch out of the pockets of thousands of victims whose loss has been exactly the same as if they had been held up at the point of a gun by a hooded highwayman, has been allowed, when caught, to keep his loot by paying a few thousand dollars or even by merely promising not to repeat his offense.

If a Roman Emperor, the Emperor Zeno, could proclaim by imperial edict that monopolists would be punished by a total confiscation of their wealth and exile, a democratic society should not be squeamish about effectively punishing such malefactors. Fines imposed on corporations should be discontinued. Such fines punish innocent investors and workers. Anti-trust penalties should run directly to the persons responsible—the officers and heads of the business who planned or executed the offense. Fines on officers should be increased to a maximum limit of two hundred thousand dollars, with the proviso, of course, that it would be unlawful for such offenders to receive reimbursement from their own corporations or other corporations. In addition to fines, such persons should have imposed on them another penalty which should be mandatory. Should prison sentences be made compulsory? If they are not, another mandatory penalty should be provided. For first offense, the offenders should be prohibited from holding any office in a corporation or business engaged in interstate commerce for a period of five years. On a second conviction, they should be permanently prohibited from holding any such office and in addition *lose their citizenship*. This kind of a penalty would make the highly paid officers of our giant corporations genuinely fearful of committing monopoly.

2. The annual appropriations of the agencies enforcing the anti-trust laws—the Anti-Trust Division of the Department of Justice and the Federal Trade Commission—should be multiplied. Never in their history have these agencies had resources sufficient even to scratch the surface of their problem of law enforcement.

Investing the taxpayer's money in anti-trust enforcement is money profitably invested. It is money invested to make private business productive so that government borrowing and spending may be terminated and the present fatal drift towards an authoritarian government reversed. Monopoly in private business is the largest single source of suppressed buying power in private business. The release of this buying power is fundamental to the recovery of private business. There are industries today in America which have been practicing monopoly with impunity because of the inadequate investigative and prosecutional resources of anti-trust enforcement, although a fall in the price of their products by so little as a few cents would generate hundreds of millions of dollars of sound buying power in the economy.

Billions of dollars of buying power can be released in private business by a real enforcement of the anti-trust laws. Preventing price conspirators from repeating their offense after a successful prosecution means the husbanding of billions of dollars of buying power necessary to keep the full productive powers of the economic system working continuously. But, if monopoly is to be driven out of private business and kept out, the anti-trust enforcement agencies of the government must be given adequate funds.

All during the thirties the resources of these agencies were utterly inadequate to cope with the monopoly problem. In this period the staff of the Anti-Trust Division of the Department of Justice ranged from a low of 67 persons in 1933 to a high of 312 in 1940. The annual appropriations of this agency ranged from a low of about $275,000 in 1933 to a high of $1,309,000 in 1940.

In the same period the staff of the Federal Trade Commission ranged from a low of 404 employees in 1933 to a high of 692 in 1939. Its annual appropriations ranged from a low of $1,451,000 in 1933 to a high of $2,264,000 in 1940.

The combined staffs of these two agencies in the thirties never exceeded 1000 persons. Their combined annual appropriations never exceeded $3,600,000. A total staff of some 1000 persons was called

upon to police a vast world of business. In that world there were thousands of separate industries, with hundreds of thousands of separate units turning out millions of different products. Each product could at any time become the lair of price fixers. The stand of Leonidas at the pass of Thermopylæ with 1000 Greeks was not more one-sided than the efforts of 1000 government workers to hold in check the hordes of the American business world.

The futility of their task may be measured by an illustration from the late war. With the beginning of that war, O.P.A. was created. Its job was also to protect the public from unfair prices—prices that were higher than the ceilings imposed by O.P.A. To do its work, O.P.A. assembled a price enforcement staff of some 38,000 persons, and constantly complained to Congress that it wasn't large enough to handle the problem! Yet in the days of peace which preceded the formation of O.P.A., the anti-trust enforcement agencies of the Federal Government were expected to police an even larger world of business, to prevent unfair prices due to price conspiracies. Their policing job was much more difficult than that of O.P.A. because price-fixing agreements are arrived at in secrecy and have to be detected by investigations often extensive and costly. To suppose that these agencies could accomplish their job with 1000 persons was to ask them in effect to bail out the ocean with a water jug.

An annual appropriation of $150,000,000 for the Anti-Trust Division of the Department of Justice and $100,000,000 for the Federal Trade Commission will not be too large if monopoly is to be driven out of business. Such appropriations will pay for themselves many times over in the release of buying power and its maintenace in private business.

3. For many years there have been in American industry smaller concerns which would have liked to bid for more business by cutting their prices. But the presence of giant corporations and the inadequacies of the anti-trust laws have made this impossible. In general, small business has prudently abided by the prices which giant corporations have imposed on industries. It has prudently sat at the foot of the table of trade and submitted to a one-sided carving of the turkey of profits. From bitter experience small business has found it suicidal to attempt to breach the prices laid down by corporations with assets running into hundreds of millions of dollars. The few that attempted it generally landed in bankruptcy. Giant

corporations had the economic power to ruin such price cutters. A giant corporation could not only meet the price of a price cutter, which would have been fair and legitimate competition, but could go farther. It could cut prices to a point where the price cutter could not survive. The mammoth concern could do this, of course, only by offering a product for sale below its cost of production and absorbing the losses on its sale until the smaller concern that had jumped the price originally had been put out of business or had been taught a lesson. The absorption of losses by the giant concern until the price jumper had been satisfactorily punished was made possible in either of two ways:

a. The profits of plants not located in the region where a smaller concern had cut prices could be used by the giant corporation to subsidize plants in that region so that they could cut prices to a level which would either bankrupt the smaller business or seriously injure it.

b. The profits from other businesses (case of an industrial holding company owning different businesses) could be used to pursue the same end.

Now, the anti-trust laws have long forbidden this kind of punitive action by a large business against a smaller one. But this prohibition has been notoriously unenforced. Smaller businesses which have challenged the prices of dominant corporations have found it a difficult matter even to get the government interested in moving to protect them from such retaliation. Or if the government did move, the process of relief was disastrously slow. The government often took months to investigate the situation. If it then found that a large corporation was guilty of punishing a smaller rival for cutting prices, its decision had to travel a long route of judicial appeal. If, after perhaps years of delay, the government finally convicted the large corporation, the victimized concern was generally out of business. The anti-trust laws then cordially invited the owners of the ruined small business to buck up and sue their oppressor for triple damages. The injured parties were then obliged to finance out of their depleted pockets the costs of a suit to determine the amount of the damage. It is little wonder that the triple damage provision of the anti-trust laws has been so little invoked.

Selling below cost has not only been used by large corporations to intimidate smaller businesses from cutting prices; it has also

been vigorously employed by large corporations to enlarge the trade territory dominated by them. Monopoly is rarely one hundred per cent effective. At any one time a giant corporation or several giant corporations may be occupying markets which they dominate and on which they have imposed monopolistic prices, and also markets in which competition exists and where such competition prevents the imposition of monopolistic prices. In such latter markets selling below cost has been frequently used to wipe out competitors and to force the survivors to come to terms with the giant concern.

If small business could be given adequate protection against retaliatory price wars and against the practice of selling below cost where large corporations are attempting to bring surviving competition under control, small business could become a powerful instrument for breaking up monopoly in the economic system. It would have a strong incentive to sabotage the whole technique of price leadership whereby dominant corporations impose monopolistic price structures on industries. Small business could be made to play an important role in restoring competition to industries now fettered by monopoly controls. But small business cannot do this unless it is given adequate protection under the anti-trust laws.

(1) If adequate funds are appropriated for enforcing the anti-trust laws and if a determined effort is made to enforce them, the government can police markets so as to encourage small businesses to become price cutters and to protect them from any punitive action by larger rivals intent on maintaining monopolistic prices. At the same time existing competition and its increase in markets would be protected from attempts of giant corporations to reduce it by expansion programs based on selling below cost in such markets.[1]

(2) The provision for triple damages in the anti-trust laws should be strengthened so that:

[1]How effectively selling below cost may be used to expand the business of a giant corporation may be illustrated by the current case of a large chain store. In 1925 this concern had more than a hundred-million-dollar business. By the beginning of the late war it had run this up to a *billion* dollars. The terrific expansion of this giant corporation—an expansion that bankrupted thousands of smaller rivals—was engineered largely by ruthlessly selling below cost in markets where its leadership was challenged. It was able to do this by using the profits made in other businesses which it also owned through the medium of a holding company, to subsidize its stores in localities where it had not become dominant. Once it became dominant in a locality, selling below cost ceased at once, and prices were imposed on consumers which assured monopolistic earnings because the surviving competitors had been effectively intimidated.

(a) Penalties fully as severe as those suggested for price conspirators should be meted out to the officials of any business that attempts to punish a smaller concern for cutting prices.

(b) Where a concern has been injured as the result of a retaliatory price war, it should be the duty of government to ascertain the amount of the damage. The owners of the injured business, however, should retain the right to appeal from the findings of the government in a suit at their own expense.

3. The whole fantastic system of interlocking directors now existing between industrial corporations and between such corporations and financial corporations should be speedily dissolved. There are men in America today who hold from ten to fifty directorships. One naturally asks how one man can handle efficiently so many jobs. The answer is he can't. Such men perform only the disservice to the economic system of pyramiding economic power and concentrating its use either for the maintenance of suppressed production in the system or the exploitation of capital. Let us look at two examples out of many. Corporation A has three billions of assets. It had, in 1938, eighteen officers and directors who held ninety-two outside officerships or directorships. This corporation was interlocked with thirty billions of corporate assets. Corporation B with five billions of assets was interlocked with *thirty-eight billions of assets.* The device of interlocking directorships or officerships has been of great value in increasing the destructive effect of concentrated economic power in the economy, and it must be subdued. No one should be permitted by law to be either an officer or director of more than ONE corporation. Such a law should be quickly provided, a date set for its application. On that date directors or officers violating it should be subject to the same penalties recommended for monopolists.

4. Giant corporations are the primary source of concentrated wealth and economic power in the economic system. Through the device of interlocking directors their concentrated economic power has been further concentrated and the disastrous effect of concentrated economic power on the economic system multiplied. The elimination of interlocking directors would still leave a large residue of concentrated wealth and economic power in industry. That residue should not be added to. Giant corporations owe their size almost entirely to the financial processes of merger and combination. As

far back as 1914, Woodrow Wilson perceived the direct relationship between corporate size and the growth of monopoly in industry. Under his leadership, Congress passed a law forbidding competing corporations from combining or merging. The law had hardly been passed when corporation lawyers developed a way to evade it completely. The law forbade one corporation from enlarging its size by *acquiring the stock* of a competitor. Corporation lawyers hit upon the device of having one corporation *buy the assets of a competitor.* This technique of evasion was upheld by the Supreme Court and the door was kept wide open for the further growth of monopoly. For thirty-two years, all efforts to close the gap in the law of 1914 have failed. This gap should be closed at once, but the law should be extended to cover the acquisition by one corporation of *any other corporation* whether it is engaged in the same line of business or not. The bringing together of two unrelated businesses under one management immediately creates the power for the new corporation to compete unfairly, especially where the new corporation is large. This point will be subsequently elaborated.

5. Before the present war there were some industries in America in which ONE company occupied such a dominating position that an enforcement of the anti-trust laws could not result in the establishment of competitive prices. All or nearly all of the nation's supply of aluminum, nickel, molybdenum, magnesium, shoe machinery, glass container machinery and scientific precision glass was controlled by ONE company in each of these fields.[1] All the sleeping and parlor cars on America railroads were operated by ONE company. Ninety-five per cent of the heat-resisting glass ware produced in the United States was manufactured and distributed by the Corning Glass Works.[2] In 1938, the United States Tariff Commission, in a report covering some 2250 synthetic organic chemicals, listed only ONE producer for nearly 1200 of these items.[3]

Should these companies and companies in other manufacturing industries continue to hold their present dominating position in their industries after the present war, the government will have to give them special treatment. They will either have to be dissolved into smaller independent units or new competitors will have to be

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[1] Final Report of the Executive Secretary, Temporary National Economic Committee, page 7.

[2] *Ibid.*, page 9. [3] *Ibid.*

financed. The financing of new competitors, if this method is employed, will probably require adjustments in the existing patent laws which will make improved processes available to such competitors.

THE LONG-RANGE EFFORT

Enforcing the anti-trust laws in an industrial structure dominated by giant corporations has limited possibilities to relieve the fatal pressure of excessive prices on the economic system which has made it impossible for private business to carry the employment load. A vigorous enforcement of these laws would release a certain amount of competition at the level of management, causing some prices to fall, and expand buying power and production in private business. But it is practically certain that not enough competition would be released in the economic system to effect a general readjustment of prices which would bring about a substantial recovery of business.

In the first place, there is the grave risk that the economic and political power of giant corporations would eventually bring anti-trust enforcement again under their control. If that happened the gains achieved would be lost. Competition would vanish where it had appeared, prices would rise, and private business would again be forced back on government spending to avert drastic unemployment. Such a hazard cannot be underestimated.

In the second place, no attempt to make management competitive can ignore the factor of monopoly at the level of labor. In many industries wages are already at such high levels that the most thoroughgoing enforcement of the anti-trust laws against management could not produce the general readjustment of prices which will be necessary to effect the recovery of private business. Monopoly at the level of labor also has the power to restrict production by preventing the use of more efficient methods of production. Now it was a combination of non-competitive management and competitive labor which wrecked American capitalism in 1929, and under a reverse combination of competitive management and non-competitive labor the recovery of private business cannot be achieved. Under the latter combination, the power to restrict production would be merely shifted from management to labor.

The restoration of competition at the level of labor presents a critical problem which we will take up in a moment. But the solu-

tion of that problem hinges, to a large extent, on the possibility of *insuring* a restoration of competitive management in the economic system. Labor cannot risk a restoration of competition as the regulator of wages unless it can be reasonably sure that competition can be *restored and maintained* at the level of management. Hence it is of vital importance to point out that there is only one way to make sure that competitive management will be restored and maintained, and that way is for the government to prepare and progressively apply a program for breaking up all giant corporations into numerous smaller units.[1] This method obviates the danger that anti-trust enforcement will fall under the control of monopolists, and clears the way for proceeding fairly against the existence of monopoly at the level of labor.

When the units of an industry are numerous and no unit has gigantic size, a natural barrier to monopoly is created. Business men themselves then become allies of government in preventing monopoly. It is extremely difficult to get numerous units to agree on a monopoly price and practically impossible for the conspirators to enforce it. The profits of "chiseling" price agreements are irresistible and the economic means do not exist for whipping price chiselers into line—the concentration of a high percentage of the productive facilities of the industry in one or several giant corporations. At the same time, should monopoly surmount the natural barrier of private sabotage, the government is *free to proceed against the conspiracy.* Concentrated economic power no longer exists to exert destructive political pressure on law enforcement. The government is the master of the situation.

Not only will vigorous competition be promoted in industry by the dissolution of giant corporations, but their dissolution promises to release a maximum amount of buying power in the economic system. Under competition, costs of production directly affect the level of prices. If costs of production are higher than they should be, the level of prices will be higher and buying power less in the economic system than if such costs were lower. Even if giant corporations could be compelled to compete, the question arises whether such corporations do not have higher costs of production than would exist in industry if they were dissolved into smaller and more compact units. Now there are legitimate economies which result from

[1] See Appendix A.

size, or from large-scale operations. But the fullest realization of these economies does not call for corporations with assets running into many millions. After a certain size has been attained by a business unit, all the economies resulting from size have been reaped, such as utilization of by-products, maximum discounts for purchasing materials in quantities, and carload shipments of finished products. Size beyond that point actually decreases efficiency and increases costs. It decreases the basic and all-important efficiency in production —that of mass production. Mass production was not invented by giant corporations. It existed in American industry before they were created. Actually, mass production can take place in a small unit of production and be more efficient than in a huge unit.

Mass production is simply an engineering process within a single factory. It is the most efficient combination of men, machines and materials within a single plant or factory so as to obtain the lowest possible cost. When a single factory has reached an optimum size, no further technical progress can be achieved by putting two such plants side by side. When several technically efficient plants are brought together under a common ownership, there is no technical gain by the addition, and there is usually a loss because there are fewer managerial brains, spread more thinly over the whole operation. Giant corporations represent the combination under common ownership of hundreds of separate plants. In such corporations management is compelled to be remote from the places where mass production, if efficient, should be competently controlled and directed. There comes a time—

when the men in the twentieth story of an office building cannot make up, no matter how brilliant they may be, for the waste and shiftlessness of a variety of superintendents in many mills, hundreds of miles away in all directions.[1]

The late President Roosevelt stated the case well for the dissolution of giant corporations when he said:

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand forge. A series of processes involved in turning out a given manufactured product may well require one or more large mass production plants. Modern efficiency may call for this but modern efficient mass production

[1] A. S. Dewing, *Corporation Promotions and Reorganizations.*

is not furthered by a central control which destroys competition between industrial plants *each capable of efficient mass production while operating as separate units.* Industrial efficiency does not have to mean industrial empire building.[1]

It must be kept in mind that giant corporations were not created for the purpose of increasing efficiency in industry. Under competition, sound growth is achieved through each concern investing its profits in new plants and equipment. Under competition, growth is constantly checked for efficiency and natural limits to gigantism are imposed. Concerns that exceed such limits bog down in natural inefficiency and expose themselves to destruction by smaller and better-managed competitors. Under conditions of natural growth, gigantism in industry would have been greatly retarded. Our giant corporations were generally whipped together by processes of artificial growth—the financial processes of merger and combination. This method of growth provided no check whatsoever on either efficiency or inefficiency. In the important mergers, no industrial engineers were consulted to determine whether increased economies would result. Wall Street was concerned only with size sufficient to restrain production, create monopoly profits, and lucrative underwriting commissions. Gigantic size brought with it the power to achieve illegitimate economies. Giant corporations could push prices downward for the unorganized producers of raw materials by staying off the market until such producers yielded to necessity, and push them upward to consumers. They could obtain preferential railroad rates, sweat labor, control inventions and the taxing power of democracy. But such economies were an exploitation of the economic system. With gigantic size also came inescapable wastes resulting from distant and bureaucratic management. From time to time various government agencies have obtained costs of production of giant corporations and much smaller units in industries. The contrast has been invariably unfavorable to the giants. The available evidence and theory indicate strongly that a dissolution of giant corporations into smaller units would lower costs of production in industry by increasing the efficiency of management and decreasing the wastes which accompany excessive size.

The dissolution of giant corporations is perfectly feasible. The

[1]Message of the President to Congress, April 20, 1938. The italics are mine.

oft-quoted remark that "You can't unscramble an omelet" is a false analogy. A combination of corporations is not a mess of scrambled eggs, but a network of legal contracts, *basically extraneous to the job of production*. Dissolution is merely the rearrangement of proprietorship. It would not destroy an iota of the physical resources and productive equipment to which ownership attaches. It does, however, disperse the monopoly power which comes from size alone. Even when the ownership of great complexes of production facilities is totally amalgamated in a single corporation, the identity of all constituent former corporations having been lost, it is still possible to appraise and reapportion the legal rights with reasonable equity. What the ingenuity of corporation lawyers has put together, other lawyers and experts and courts can take apart, and industrial engineers can furnish the blueprints for breaking up giant corporations into numerous, more efficient and independent smaller corporations. Nevertheless, the unraveling of our tangled industrial structure, made possible by public neglect during the last three-quarters of a century, is no petty task. It would seem advisable to set up a special administrative commission *ad hoc* to carry out under Congressional mandate the task of dissolving corporations engaged in interstate commerce. The essential purpose would be to simplify corporate structures and to multiply the number of independently owned and independently operated industrial units to the *extreme limits* compatible with the maintenance of individual plant efficiency. This means in general *single plants,* each under separate ownership, except where it is shown by affirmative proof that two or more physically integrated plants can be more efficiently operated in a continuous process under united ownership. As corporations are dissolved, the law should be vigilant to prevent any growth of such dissolved units by the financial processes of merger and combination.

The dissolution of large corporations should follow three routes. Some corporations are gigantic because they have united under a common ownership numerous plants formerly engaged in the manufacture of a particular product. The problem presented by such horizontal combination is to dissolve the corporation into a maximum number of independently owned and operated units. Other corporations owe their size to *vertical integration*. In this kind of a setup a corporation generally owns its sources of raw materials, and a transportation system for transporting the raw materials to its fabri-

cating establishments. Vertical integration results in unfair competition which automatically limits competitive opposition to a corporation so constructed. The corporation can obtain its raw materials at cost, it can transport them at cost. The corporation engaged solely in fabricating activities has to pay for its raw materials and transport them at market prices. The primary purpose of vertical integration was to achieve competitive advantages on the fabricating front.

In the oil industry today, the vertical integration of giant oil companies has been effectively used to suppress competition from independent, non-integrated oil companies engaged solely or generally in the refining of oil and from independent distributors who purchase from such oil companies. The giant oil companies have used their profits derived from their crude production departments, their pipe-line and marketing departments to subsidize their refining departments. Through the use of these profits the refining departments of giant oil companies have been able for many years to expand their markets and bring them under a joint monopolistic control, by waging ruinous price wars on independent refiners and distributors who attempted to sell gas and oil more cheaply to the public. Independent refiners and distributors still exist in the oil industry but their percentage of the business is small. The power of the giant companies actually to wage or threaten to wage price wars against such independents, if they do not observe the prices established by the giant companies through their own distribution outlets, has been thoroughly effective in protecting the large markets dominated by the giant companies. This kind of unfair competition has held the small and frequently efficient oil refiner and distributor in check for years.

From the standpoint of industrial efficiency, vertical integration by combining three different businesses under one management is inefficient. The dissolution of giant corporations vertically integrated should proceed on three fronts: (a) The raw material properties of the corporation should be divided into separate and independent corporations; (b) the transportation system should be made independent; (c) the fabricating plants should be resolved into a maximum number of efficient smaller corporations.

Finally, there are giant corporations called "conglomerates." These corporations unite under one ownership and management numerous and diverse businesses. Like the corporation vertically integrated, it has the power to compete unfairly. It can use the profits of one of

its businesses to subsidize another. In the early days of the development of corporations in the United States, state governments permitted private incorporation only where the business was engaged in a single enterprise. This policy reflected a sound and basic principle of business efficiency. It was abandoned when the incorporation policies of state governments fell under the control of plutocracy. This principle must be resurrected and applied. The dissolution of conglomerates should aim to separate the different businesses contained within its structure and to divide up each business into a maximum number of efficient smaller units.

MANAGERIAL OPPORTUNITY

One of the oldest and deepest-rooted desires of the average American has been to rise to the position of an executive. The dissolution of giant corporations would enlarge many times the opportunity to satisfy this fundamental and laudable ambition. Giant corporations and bigness in business have cut this opportunity to a point where its satisfaction is reserved for an increasingly smaller number of persons each year. Multiplying opportunity in America to manage and direct will pay large dividends in social satisfaction. It will also open up a wealth of new ideas and new blood in business, and provide the strongest kind of an incentive for progress.

DISSOLUTION NOT A RADICAL IDEA

The proposal to dissolve giant corporations is not a radical idea. The staunchest defenders of giant size in business are actually socialists and communists. Every intelligent radical knows that such size has been undermining the productivity of capitalism for many years and hastening the day of revolution when the people will abandon capitalism because the system has abandoned them to unemployment and misery. For another reason, too, radicals have defended size in business. Every giant corporation has represented the elimination of competition over a wide area of the economic system. As radicals propose to have government take over all business under a system of centralized planning, the maximum growth of giant corporations will make that task easier. Consequently, the most ardent advocates of bigness in business have been short-sighted

business men, socialists and communists who all agree that centralized planning and centralized operations are necessary and beneficial to the economic system. They disagree only on who is to do the planning and who is theoretically to get the proceeds.

The critics of size in business, on the contrary, have invariably been firm believers in capitalism and frequently outstanding figures in the nation. They have included able corporation lawyers, presidents of big corporations and notable financiers who have perceived the strangulative consequences of bigness to the economic system, as well as famous industrial engineers and economists. Only a short while ago Mr. John K. Jessup, Chairman of the Committee of Editors of such powerful and reputable magazines as *Life, Time,* and *Fortune,* could say in *Life* Magazine, bluntly and unequivocally:

> The best friend and exemplar of economic freedom in America is the small new competitive enterpriser who wants to be in business for himself. Such a man should be the favorite of a truly liberal government; not only because his buying and selling keeps the market active, but because he keeps the economy expanding; because he creates more jobs for others to choose from, and because by controlling his own livelihood, he represents a stage of economic freedom to which most Americans aspire. The more enterprisers, the freer the nation.[1]

In 1938, *Fortune* Magazine said that "business could unwind at a profit" just as it "wound up at a profit," and concluded:

> If, finally, neither business nor government make any move whatsoever in the direction of breaking down business into smaller, more compact, more mobile and better earning units; if bigness is allowed to remain the standard concept of economy, then the American business man and the American politician must prepare themselves for a different order of things—an order in which the powers of government are not limited . . . and in which the making, selling and even the buying of the products of the biggest show on earth are all mysteriously directed from above.[2]

COMPETITIVE MANAGEMENT IN DISTRIBUTION

Twenty-five years ago economists tended to talk smugly about the field of distribution. Because of the numerousness of distributive units it was assumed that the field of distribution was immune to

[1] "America and the Future," *Life* Magazine, Sept. 13, 1943.
[2] "Business and Government," *Fortune* Magazine, March, 1938.

the economic disease of monopoly. Today that assumption is no longer tenable. In important distributive industries such as poultry, fish, building supplies and others, vicious monopoly controls have been developed. In still others, groups of distributors have lobbied state laws permitting them to control prices of numerous products. In distribution, laws prohibiting "loss leaders" have justification. In general, no distributor should be allowed to sell below inventory cost to attract business. "Loss leaders" are a form of *unfair competition*. But state laws which permit distributors to control prices which force consumers to pay more than they would under fair competition, permit *the elimination of price competition* and have no justification.

Finally the rise of giant corporations in distribution has contributed to the spread of monopoly. These corporations have achieved their vast size in two ways. Their inception has generally been due to the use of the corporate device of merger and combination. Having achieved a certain size, they have been in a position to exact excessive discounts and allowances from manufacturers because of their economic power. The Robinson-Patman Act was specifically enacted to put an end to such unfair concessions. This act, however, has been tragically unenforced because of lack of adequate enforcement appropriations. With giant size other unfair advantages in the market were available. Giant distributors could stay off agricultural markets until they had forced the unorganized and small competitive agricultural producer to sell at ruinous prices. Or they could use the profits of other businesses which they controlled through the holding company device. Through the advantages of sheer economic power, giant distributive companies were able to expand their growth by underselling smaller competitors who could not obtain discriminatory discounts and allowances from manufacturers, or who could not force the farmer to his knees when he sold to them, or who did not own other businesses whose profits they could draw upon. The result of their growth has been twofold. Thousands of smaller distributive units have been put out of business, not because they were inefficient but because government failed to protect them from such unfair competition. Giant distributive corporations having acquired a dominant position in local markets have stopped competing and have then imposed noncompetitive or monopolistic prices on such markets.

If the progress of noncompetitive management in distribution is to be halted and reversed, certain steps are advisable:

1. Strong enforcement of strengthened anti-trust laws, particularly the Robinson-Patman Act.
2. Efforts within states to secure the repeal of all laws conferring monopolistic powers on distributors.
3. A reduction in the size of certain giant distributive corporations. It doesn't take 10,000 stores united under a common management to make a maximumly efficient distributive unit. But 10,000 stores united under a common management which also owns and controls the profits of other businesses possesses the economic and political power to crush smaller rivals through practices unrelated to efficiency and to bring markets under monopolistic control.[1]
4. Prohibiting further mergers in distribution.

COMPETITIVE MANAGEMENT IN TRANSPORTATION

Monopoly controls in transportation have eliminated to a substantial degree:

1. Competition between companies furnishing the *same* kind of transportation service.
2. Competition between companies furnishing *different* kinds.

The problem of restoring competition at the level of management in transportation is not an easy one. We suggest here only a few lines of attack on the problem.

1. Enforcement of the anti-trust laws in the transportation field, particularly against all efforts to fix the price of transportation on railroad, truck, bus, inland water or air lines.
2. Defeat of the Bulwinkle bill now pending in Congress. This bill, supported by powerful railroad interests, proposes to exempt railroads from the anti-trust laws, to legalize the fixing of monopolistic rates on railroads. Its passage would impose a formidable barrier to the recovery of capitalism in the United States.[2]
3. Existing law prohibits any company engaged in furnishing one kind of transportation service from owning or controlling any company furnishing a different kind. But like so many other laws in-

[1]See Appendix B. [2]See Appendix C.

tended to restrain big business, it has been administratively reduced to impotence. Today railroads, by owning or controlling truck, bus, and inland water companies, have been able to intimidate independent truck, bus, and water companies into putting their rates at a point which protects the railroads from such competition. Railroads having stock interests in other kinds of transportation companies should be compelled to divest themselves of such interests, and existing law prohibiting the acquisition of such interests should be immediately repaired.

4. Banker control of railroads should be completely terminated. This control not only has led to the exploitation of railroad credit in the interest of banking commissions, but has been used vigorously to promote the fixing of railroad rates. Banker control stems from two major sources of power. Up to 1944 practically all railroad financing was handled by two investment banking houses which had in effect divided up among themselves the railway map, and which had been powerful enough to prevent other investment banking houses from interfering with their monopolistic position in railroad financing. These two investment banking houses are also interlocked, directly or indirectly, with giant insurance companies which own large blocks of railroad voting stock, with railroad, truck, bus, airplane, and inland water companies.

Abolishing the system of interlocking directors and officers now in existence in business and finance, as previously advocated, would help materially to dissolve banker control of railroads. In 1944, the Interstate Commerce Commission, prodded into action by public pressure, ordered railroad companies to submit to competitive bidding when offering securities. Already railroads have been saved many dollars that would otherwise have been taken away from them in excessive financing charges under the old system of noncompetitive bidding on security issues by investment banking houses. If the policy of enforcing competitive bidding is consistently pursued, it will deliver another effective blow at banker domination of railroads.

5. Prohibiting further mergers among competing transportation companies. The merger device has been notoriously used to eliminate or reduce competition between companies furnishing the same kind of transportation service and between companies furnishing different kinds.

6. *Establishment of a fair freight-rate structure.* Freight rates are not only discriminatory between regions, a subject which will be treated separately,[1] but within a region they are frequently, directly or indirectly, discriminatory against small shippers. Though the published tariffs of railroads ostensibly treat large and small shippers alike, *large shippers have been able to secure preferential commodity rates.* Through the ownership of railroads, too, large shippers have been able unfairly to obtain reduced transportation expenses. Many large shippers own either small railroads running from their factories to the trunk lines of regular railroads, or more extensive railroad lines which carry their products a longer distance before turning them over to regular lines. By playing one railroad off against another, shipper-owned railroads have been used to exact from regular lines *an unfair division of the shipping dollar.* The large profits of shipper-owned railroads have constituted in effect *a rebate* on the shipping expenses of their large shipper-owners. An early act of Congress forbade railroads to have any interest in industrial concerns, on the sound theory that railroads would be able to subsidize the transportation expenses of the industries they owned and give them an unfair advantage in industrial markets. Today we have a reverse situation—industrial concerns owning railroads and securing unfair advantages in industrial markets through having such railroads subsidize their transportation expenses. Shippers owning railroads should be compelled either to divest themselves of such railroads, or, where they are small, to have the choice of withdrawing them as interstate carriers, thus taking away from them the power to negotiate with regular railroad lines for a division of the shipping dollar.

Nothing has so retarded the development of small business in the United States as the ability of giant corporations to obtain unfair transportation advantages.

7. A thorough investigation of the Interstate Commerce Commis-

[1]It should be pointed out here that banker control of railroads has been a major factor in preserving discriminatory freight rates between regions in the United States. The investment banking houses monopolizing railroad financing have also been vitally interested in powerful industrial monopolies whose securities they also handled. Many of these monopolies were actually created by the banking houses controlling railroad credit through the device of merger. Banker domination of railroads has consequently been used to protect their industrial clients and protégés from the appearance of competitors in the South or West by manipulating railroad rates so that this could not happen.

sion to determine whether the Commission has abused its power to charter new companies in the fields of truck, bus and inland water transportation. Under existing law no new company can gain admission to these fields of transportation unless the Commission grants it a certificate of public necessity and convenience. It has been charged on competent authority that the Commission has long refused to charter new companies which offered *to furnish transportation at lower rates than those prevailing or to furnish superior service at existing rates.* Keeping the door open to new competitors is vitally necessary to insure effective competition in the field of transportation.

INTERSTATE TRADE BARRIERS

Within the last twenty-five years, hundreds of laws, regulations, ordinances and administrative orders have been put out by states and towns and cities within states which have impeded the free flow of commerce between the states and between localities within a state. These trade barriers have affected prices, the movement of goods and services, and the whole level of domestic trade. As a result of these, the people in one area have frequently been forced to pay much higher prices for a product than an adjacent area is charging for the same product. Their existence has seriously restricted competition, increased prices and limited markets. Such protected markets contribute to the same fundamental situation which has caused under-production in the national economy as a whole. The restriction of competition between states and between local communities within states has exactly the same effect as monopoly. Higher prices and less purchasing power in the economy have been the inevitable result of such practices. Their elimination is necessary if capitalism is to be effectively reformed. How they can be eliminated poses some problems in constitutional law and politics, but a determined effort must be made to remedy this situation.

THE FREEING OF CREDIT

The money trust brought to light by the Pujo investigating committee in 1921 was not damaged by its exposure. The legislative recommendations of the committee came to naught and the control of credit was enlarged and strengthened. Today, a higher percentage

of the loanable capital of the nation is under a more concentrated control because of the growth of larger banks, trust companies, insurance companies and industrial corporations.[1]

Today, the old power of the investment banker as the prime source of capital has waned somewhat. Giant banks, trust companies, insurance companies and industrial corporations have invaded his once pre-empted field by making long-term loans directly to borrowers without his intermediation. The huge profits of many industrial corporations enabled many to become independent of capital markets or to enter them as lenders. But the functioning of the concentrated control of credit to prevent the rise of competitive forces which would injure the profits derived from the suppression of production in the economy *has not waned*. The community of interest idea between large enterprise and large finance is still as dominant as it was in the days of the elder Morgan.

Giant banks, trust companies, insurance companies and industrial corporations have continued to respect their mutual interests in the investment of capital. Giant insurance companies do not want any new company to be financed that will sell insurance below the monopolistic rates which they have established. Giant banks do not want any aggressive new banks in the industry which would lower the interest rate or the system of uniform charges on depositors and customers that they have developed. Giant corporations do not want new competitors who would endanger the prevailing price structures. Large investment banking houses do not want to compete for business, preferring to maintain among themselves a division of the corporate map.[2]

The function of capital in a capitalistic system is to promote to the fullest degree the financing of new methods of production and

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[1]In 1937, the Temporary National Economic Committee found that while 308 insurance companies had 26 billions of assets, the 5 largest held 54 per cent of this total and 25 had 87 per cent. In 1939, 543 mutual savings banks had $11,600,000,000 of assets, but the 25 largest banks held 42 per cent of this total. In 1939, there were some 14,000 commercial banks with total assets of approximately $26,000,000,000. But less than two-fifths of one per cent of these banks held 46 per cent of all assets. In 1937, of 318,000 nonfinancial corporations 210 accounted for 30 per cent of their total savings while four and two-tenths per cent contributed 88 per cent. In bad years the concentration was still greater. In 1933, 375 nonfinancial corporations accounted for 74 per cent of the total savings of such corporations. (Final Report of the Executive Secretary, page 210.)

[2]The Temporary National Economic Committee found that this practice, uncovered by the Pujo committee in 1912, was still dominant in the industry in 1938.

new industries. Where competition is vigorous in industry no individual or group has the power to restrict production. Where the investment of capital is conducted on a competitive basis, no individual or group has the power to prevent the development of better methods of production and new industries, at a reasonable cost.

The control which was established over capital in America caused capital to misfunction. Capital was used to buy up competition and to create monopoly in business. It was used to exploit capital itself. It was used to prevent the development of improved technology and new industries or to force their development under monopolistic conditions.

There are only three ways possible to dissolve the present power of finance to obstruct or prevent the use of capital to expand production in the economic system.

1. The government can take over private finance in socialistic fashion.

2. The government can go permanently into the business of supplying private enterprise with credit, in competition with private finance.

3. Or competition can be restored in private finance.

The first method would make the government a dictator at once. The second would in time lead to the bankruptcy of private finance and make government a dictator. Only the third is compatible with the preservation of capitalism and freedom in America.

The first step towards freeing capital in America is to bring about a complete divorce between finance and business. Because finance has been able to exert a control over business, the misfunctioning of capital has been possible. There have been three major devices through which this control has been exercised. Through the device of merger and combination, finance has been permitted to create monopoly in business at a handsome profit to itself. Through the device of interlocking directors, finance has been able to exploit capital (to plunder corporations and to stimulate the issuance of unneeded securities). Through the device of noncompetitive bidding on the issuance of securities by business corporations, finance has been able to levy excessive charges for the use of capital which have increased costs of production and prices. Finally, the patent laws have facilitated the power of finance to create monopoly in business, to force the development of improved technology under conditions

of monopoly and to limit the use of improved technology to parts of industries.

If these devices are taken entirely out of the hands of finance (numerous attempts to do so have all failed to date)—if mergers and combinations are in general prohibited, interlocking directors abolished, corporations compelled to raise capital by inviting competitive bids,[1] and investment bankers and lending agencies subjected to severe penalties for failure to compete for the placing of capital—and the patent laws reformed, the situation would be helped materially.

If financiers can be compelled through regulation to confine their activities solely to the raising of capital for business enterprise on its business merits, charging for their services fees determined by brisk competition among themselves, and deterred from exploiting either capital or business by the existence of laws adequately enforced and equipped with adequate penalties, credit would be liberated. The urge of finance would then be to promote as much sound business as possible in order to increase its income, and competition itself would impose checks on unscrupulous promotion. Under the present system too many banking houses have engaged in the sale of shoddy securities. The public has had no choice. Under competition, bankers who maintained a good record for investment would prosper and the system would be released from a control that many times dictated dishonesty.

Finance would be willing to meet the credit needs of small business, and competitive endeavor would result in lowering the present high cost of such financing. It was the concentration of the control over capital that made the financing of small business both unprofitable and risky. It was unprofitable because the exploitation of business and capital on a large scale paid better returns. It was risky because the extending of credit to small business would only have precipitated its destruction. It would have been like giving a man more blue chips in a poker game in which his opponents were playing against him cooperatively with stacked cards. Giant corporations had ample economic power to take his chips away from him and so small business was kept submerged. The possibilities of lending profitably to small business depended on the possibilities of

[1] The Securities and Exchange Commission has made a start in this direction, but only a start.

such business getting some business, and that was a meager chance. But if the monopoly laws are enforced there will be a chance for small business to grow and get some business. And if finance is compelled to stick to legitimate financing for its rewards, the financing of small business will become profitable and small business will be able to get credit.

We have sketched here only a line of attack on the difficult problem of freeing credit. Its possibilities can be explored. But as in the case of giant industrial corporations there is the danger that giant financial corporations will be able to defeat any effort to make the investment of capital a thoroughly competitive business and confined to a legitimate sphere. If that happens there is only one other way to go. Giantism in finance must be dissolved into smaller units. Does it take a five-billion-dollar bank or insurance company to make a soundly operated bank or insurance business? Is the investment banking business more efficient because it is concentrated in a few houses and in one city of the United States? Conceding that there are economies to be derived from size, isn't it practically certain that the present size of banks, trust companies, insurance companies and investment banking houses greatly exceeds all legitimate economies resulting from size?

At best the freeing of credit is a long-range task. For the immediate future, small business must be provided with credit. There seems to be no other way to do this effectively except for the government to go temporarily into the business of making both short-term and long-term loans to small business at reasonable cost. An interest rate should be charged which will invite competition from private finance, encourage it to reorganize for handling this business at a reasonable cost. The government should be required to place with private agencies all loans that they are willing to take on the same, or lower, terms offered by the government. As progress is made towards liberating credit in private finance, private finance will respond to the government's invitation for competition on loans to small business and ultimately government can withdraw from the financing of small business.

PATENT LAW REFORM

The original and fundamental purpose of the patent laws was to reward inventors and thereby to stimulate inventive progress. Under

their operation, inventors have all too often been underpaid while corporations have been enriched, giantism in business has been promoted while technological progress has been confined to only parts of industries. The patent laws have thus contributed to the stifling of productive power in the economic system. This result has not been entirely the fault of the patent laws. The creation of gigantic size in business by other methods is in part responsible for the miscarriage of the patent laws. A reform of the economic system which would restore competition in industry and free credit, would make it possible for independent promoters to go into partnership with inventors and improve vastly the chances that the latter would be fairly paid for their inventions.

But even if all this were done, the existing patent laws would still conflict with a sound operation of the economic system. A period of seventeen years is an arbitrary period for the life of a patent monopoly. The period affords the company controlling a patent a considerable amount of time in which to become entrenched "in a position of dominant economic power."[1]

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[1]The huge size of the Ford Motor Company is due to patent monopolies. This company happens to be an isolated case in American industrial history where giant size did not destroy competition in an industry and where its behavior has been beneficial to the economic system. The Ford Motor Company, therefore, raises two queries concerning the position taken in this book that the patent laws should be revised so as to prevent in the future the use of a patent to create giant size in industry and that the dissolution of giant corporations may be necessary to restore competition in industry.

1. Suppose that at the time Mr. Ford patented his invention the patent laws had made his invention accessible to competitors after he had obtained reasonable compensation for himself and before his company had achieved dominant economic power. Would the patent laws have deprived America of any less number of Ford cars than exist today—cars built as well and selling at as low a price? We do not believe they would. If the patent laws had deprived Mr. Ford of the opportunity to create a billion-dollar corporation, we do not think he would have buried his invention in disgust and gone off peddling Fuller Brushes. Such patent laws would merely have compelled his invention to be developed under competitive conditions. Had this happened, we would have today not one manufacturer of Ford motors but many. These numerous competitors would be engaged in turning out the same motor but in cars under different names, competing with one another in body designs and gadgets. The world today would not have any less number of Ford cars than have been turned out by the Ford Company, nor would the price of these competing cars have been any higher. Smaller-sized producers would have been able to have applied even more effectively the principles of mass production and scientific management which have accounted for the steady decline in the cost of producing Ford cars and their selling price.

Had the whole automobile industry been compelled to develop along competitive lines with numerous producers but no unit of giant size, the American public might have today a car far superior to the Ford car. In the hear-

Inventors should not be enriched by methods which lead to the creation of size in business sufficient to repress production after the life of the patent has expired. Furthermore, with such dominant size has gone the power to confine indefinitely the technological benefits of an invention to a part of an industry. Inventors should not be compensated by methods which prevent the widest use of their inventions after they have been adequately rewarded.

Hand in hand with the attempt to restore competition in the economy and to free credit, the patent laws should be revised. A policy must be worked out which will reward inventors, prevent the use of a patent monopoly to create giant corporations, and prevent technology from being confined to parts of industries.

One line of inquiry should certainly be explored. Are patent monopolies necessary to secure either the discovery of new inventions or their development? Monopoly rights have frequently not resulted in adequate compensation to inventors. Are they necessary to insure the development of new ideas? If competition is vigorous in a

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ings before the Temporary National Economic Committee evidence introduced showed that the blueprints already existed for building a car at about one-third the pre-war price of a Ford or Chevrolet or Plymouth which would have more than twice the mileage per gallon of gasoline of such cars, but that no one could be interested in financing its birth. With two corporations in the automobile industry each with assets of a billion dollars and possessing enormous economic power to drive out of business any new fledgling corporation that threatened their interests, capital had either been frightened away from such an enterprise or the banking power of the two dominant corporations was sufficient to keep capital away. Giantism in industry even when competition is preserved, was shown to operate mechanically to block the development of new ideas.

2. Does the existence of giant size in the automobile industry vitiate our statement that giantism in industry was generally created for the purpose of throttling competition? The automobile industry is an isolated case of exception to the conclusion we advanced. Competition in this industry has been preserved and maintained solely because of the determined efforts of one man—Henry Ford. The files of the Federal Trade Commission show how persistent his rivals have been in their efforts to persuade him to end price competition in the industry by subscribing to price agreements. These efforts failed because of the unswerving fidelity of Ford to the principle of competition. Today the continuance of competition in the automobile industry hangs by a slender thread—the life of Henry Ford. When he dies, there is no assurance that his heirs will make the same effort to preserve competition in the industry. Ford, the true friend and practitioner of capitalism in America, is an almost solitary example of a big business man who has fought to preserve competition in industry. Had the automobile industry developed with numerous competing producers and without giant corporations, an economic environment would today protect and make difficult, if not impossible, the extinction of competition in this important industry. Competition would not depend, as it does today, on the behavior of one man.

capitalistic economy, will not competition in itself be sufficient to induce or to compel business men to adopt better methods of production or to develop new products without monopoly rights? Thousands of businesses have started up which did not receive from the government any monopoly rights. Their only incentive was an opportunity for competitive profits. There is considerable reason to believe that new ideas under conditions of competition would be fully as vigorously developed without patent protection as with it.

Isn't it possible to work out a new patent system in which inventions will be accessible from their birth to any enterprisers who wish to develop them, each enterpriser agreeing to pay the inventor a royalty on all profits earned in any year for seventeen consecutive years? If the total amount paid to the inventor exceeded a fixed limit —say three million dollars—at any time during the seventeen years all royalties would cease and the patent become free public property.

What is to be done about the numerous patents now held by corporations which have never been exploited? The effort to reform capitalism in the United States should aim at pressing into action all repressed productive power in the system. How many of these patents are being held back because they conflict with the particular economic interests of the corporation owning them or with the particular economic interests of its corporate allies? The situation is worth looking into. If the development of patents which would either reduce costs of production or produce new industries is being suppressed on any substantial scale, investment and work opportunities are being suppressed in the economic system at a time when the realization of those opportunities is of critical importance to the survival of the system. If such is the case a way must be found to release such patents for immediate development.

What about patent rights which are confining technological progress to parts of industries and denying small business the chance to create investment and work opportunities in the economic system by purchasing better tools? What can be done to open up this technology for wider use in industries? Will the leaders of our giant corporations cooperate voluntarily in this matter? Or can legislation intercede if our industrial leaders will not perceive the gravity of the crisis confronting capitalism and freedom in America in the immediate future?

FREIGHT RATES

The elimination of the preferential freight rate system on railroads, which has blocked the development of manufacturing and commerce in the South and West, and the smashing of the transportation monopoly which has emerged, constitute reform measures of the utmost importance to the rehabilitation of capitalism in the United States. The development of local manufacturing in the South and West will open sound investment outlets in the system on a wide front, increase the prosperity of these regions and that of the nation to a large degree.

The burden will be taken off "King Cotton" in the South—a burden that has already taken a hideous toll in poverty and disease. For years the people of the South have had either to grow cotton or to go without work. In terms of the buying power available for its consumption at a profit to the growers, cotton production has been for years excessive and has afflicted areas of the South with dire want. A release of buying power in the economy through the breaking up of private monopoly will broaden the market for cotton, the actual need for which in the nation has been tragically limited for years. The rise of local industry and commerce in the South will make it possible for Southern workers to get into other occupations. Cotton will then make a profitable adjustment.

Instead of spending billions to industrialize backward nations of the earth, the South and the West can be industrialized at home and without fear that the factories created will be turned against the United States in a war of the future. American democracy will be strengthened by the better distribution of the nation's population which will result from that industrialization. The giant cities of the East will lose their slums and people sunk in poverty and clamoring for hand-outs from the government will be given economic opportunity and reconditioned for vigorous citizenship. If the power of plutocracy to control an economic system can be broken, then numerous points of economic opportunity will arise in the regions that are underpopulated in a nation. *A restoration of natural law in American capitalism will cause the profit motive to bring about a healthy dispersion of population, just as the profit motive under plutocracy caused it to concentrate.*

But the industrialization of the South and West must be given

sound political guidance. The mistakes of Eastern industrialization must be avoided. Industrial activity must be channeled into numerous small, efficient and competing businesses. Numerous efficient banks must be encouraged and these banks must be protected from any attempt by giant banks in the East to control or dominate them. Capital must be made as competitive as industry and agriculture in the new South and West of tomorrow.

If the preferential freight-rate structure of American railroads is uprooted and the transportation industry freed from monopoly controls, America will be in the midst of the greatest and most profitable migrational wave in its history.

TAXATION

The fact has been stressed that there can be no recovery of private business unless there is also a recovery of private investment. Today tax rates are so high that they are operating to discourage investment. Tax rates must accordingly be lowered if the investment mechanism of American capitalism is to be repaired. But the *lowering of tax rates by itself* will not accomplish this. Lack of adequate opportunities for gain in investment caused by excessive tax rates is only one obstacle in the way of a revival of investment. There is another obstacle which is fully as important. It must be remembered that the investment mechanism of capitalism in the United States became jammed not because of the existence of stifling tax rates (tax rates during the twenties were low) but because of the general contraction of production in the economic system caused by the spread of monopoly in it. Unless the powers of the system to produce are also liberated, opportunities for investment will remain relatively frozen no matter how much tax rates are lowered. A lowering of tax rates by itself would only operate to increase monopoly profits in the system without affording such profits sound investment outlets. The investment mechanism of American capitalism would continue to be jammed and the recovery of private business prevented. If, however, tax rates are lowered and at the same time the natural productive powers of the system are liberated from monopoly controls, savings and investment will be brought into sound balance and the investment mechanism will be repaired.

One further word about taxation. It must not be assumed that,

because the income of the rich is today largely appropriated by government through high taxes, the problem of concentrated income in American capitalism is consequently solved. Taxing the profits of monopoly does not get rid of monopoly. Its restrictive effect on production will remain even though all the profits of monopoly were taken by the government in taxes. It is immaterial whether the profits of monopoly are spent by government or private business, so far as the recovery of private business is concerned. Unless the monopoly controls now shackling production are dissolved by a restoration of competition, private business cannot recover.

LABOR

Actually the first trade union in American capitalism exercising the power of collective bargaining was a restraint on trade. It was as much a restraint on trade as an agreement among business men to fix the price of a product. It was monopoly pure and simple, and the early common law recognized it to be such and forbade it.

Then began a strange development of capital and labor in the United States. The creation of monopoly at the levels of management and investment was roundly condemned by public opinion. The common-law prohibition against its existence was fortified by the passage of Federal Anti-Trust laws. But the principle of monopoly exercised at the level of labor through trade-union organization passed from a stage of legal outlawry to one of legal acceptance. Trade unionism was given an exemption from the laws against monopoly.

In the case of capital, the anti-trust laws imposed no obstacles to the growth of monopoly at the levels of management and investment. The concentrated ownership of industry and the control of savings had sufficient economic power to prevent the enforcement of such laws or to enervate them by judicial interpretation. The legal acceptance of trade unionism, however, was not followed by a corresponding growth of monopoly at the level of labor. The economic power of entrepreneurial monopoly was sufficient to keep its expansion down to ineffective proportions. Had unionism flourished to the same extent as monopoly among business men and financiers, the crisis reached by American capitalism in 1929 would have occurred at a much earlier date. Because of the slow and

laborious growth of trade unionism, its basic monopolistic nature was obscured because the contribution of trade unionism to restricted production in the economic system was for many years inconsequential.

It was the power of monopoly at the levels of management and investment which broke American capitalism down to a point where private business could no longer employ a sizeable part of the nation's employable population. But in the genesis of the final collapse of business in 1929 which registered this disastrous fact, labor had a negligible responsibility. Except for a few highly specialized craft unions, labor was without union organization. Up to 1929 labor had little power to block production in the economic system. Yet even then certain trade unions had convincingly demonstrated on a small scale their power to throttle production. Through wage raises they had become a factor in promoting and sustaining prices on their products which automatically reduced their consumption and hence their production. They had prevented the use of more efficient methods of production by management, had padded jobs with excessive personnel, and had further increased costs of production by devising and enforcing standards of performance which fell far below what a normally healthy worker could accomplish in a day. The potentialities of the genie in the bottle to deplete still further the natural productive powers of American capitalism were discernible.

Today the genie of trade unionism is out of the bottle. It is now a towering giant with sufficient strength to prevent the recovery of capitalism in the United States no matter what may be done to reform the system at other points. Its monopolistic nature has come home to roost. Intentionally or unintentionally, labor is closing in for the kill on a capitalistic economy already seriously enfeebled by the restriction of production at the levels of management and investment. It is exploiting policies which, if successful, will ultimately plunge the system into bankruptcy and insure the triumph of an authoritarian state in America.

Labor is apparently engaged in pursuing a mirage of prosperity—a mirage which the recent war did much to encourage. Though the United States in World War II gave away billions in Lend-Lease materials to the rest of the world, *the standard of living for the average American who remained at home rose higher than at any other time in our history.* The secret of this record-breaking pros-

perity for the common man in America was government borrowing and spending on a colossal scale. Because the government borrowed billions and billions and bought with a prodigal hand, wage rates could be shoved up to unprecedented levels. Having tasted of this unusual prosperity, labor, humanly enough, is reluctant to give it up. But with the return of peace one fact is critically important. Though the excessive profits earned by many industrial corporations in the late war, despite high taxes, will permit a further general hike of wages, once the excessive profits have been consumed in wage hikes the resulting wage rates cannot be sustained without government spending on a tremendous scale. Without tremendous government spending such wage rates would immediately cause widespread unemployment. Certain labor leaders, determined to keep wages at or near their war level realize this fact because they are also agitating vigorously for a limitless government spending program. Thus many trade-union organizations are forcing the perpetuation of government spending on a formidable and indefinite scale. They are driving what is left of capitalism in the United States into an authoritarian order. Many leaders of labor are apparently blind to the reality that no enduring prosperity for labor can be built on government spending.

The national debt is now approaching three hundred billions. It will considerably exceed that sum after America has doled out more billions for the recovery of her allies, the feeding of her foes, and the rehabilitation and care of her veterans. How far the national debt can be expanded is uncertain. But one thing is certain. It cannot be expanded indefinitely without causing a collapse of national credit. If that happens the banks and the insurance companies will be broke. Government will either move in quickly to establish a final control over the economic system, or in the prolonging of government spending the economic system will have fallen completely under the dominion of government before the final blow of national bankruptcy. Labor will have landed in an authoritarian state. Under autocratic government it will find itself quickly shorn of its former democratic power to agitate for its particular welfare. It will be reduced to slavery, as happened in Italy and Germany.

The rehabilitation of capitalism alone offers American labor an opportunity for prosperity within an enduring framework of freedom. The rehabilitation of capitalism, however, depends on the

restoration of competition in the economic system. But today, in many important industries, the high prices stifling production in private business are now compounded of both price conspiracies among business men and excessively high wages attained by labor through collective bargaining. Breaking up price conspiracies in these industries will still leave the problem of adjusting wage levels, if such industries are to expand sufficiently to bring about the recovery of private business and the rehabilitation of capitalism. If wages are not substantially reduced in many important industries, prices in them will be maintained at levels which will automatically preclude employment to workers within such industries as well as to workers in other parts of the economy. Government spending will have to continue indefinitely to take care of those unable to be employed in private business. The whole possibility of putting private business on its feet so that it can again furnish employment and a rising standard of living to all engaged in production, without financial assistance from the government, hinges on getting industrial prices down to levels where, with the abandonment of price and production controls in agriculture, private business can absorb the unemployed and the system can function progressively to expand output. But today many union forces are sufficiently powerful to defeat this goal. They are strong enough to resist adjusting of wages which will be necessary if prices, freed from monopolistic controls at the levels of management and investment, are to decline to levels which will make full production possible in private business.

If capitalism, therefore, is to be made workable again in the United States, the system must be put back under the operation of natural law. In no other way can the system be rehabilitated. This means that no group in the economy can be allowed to exercise power which can be used to restrict production. If business men are to be effectively deterred from getting together to fix prices of products at levels which insure suppressed production in private business, then labor cannot be allowed to fix its price—a price which affects directly and to a high degree the ultimate price of any product. If monopoly is to be uprooted at the levels of management and investment, it cannot be perpetuated at the level of labor. Along with a strengthening of the anti-trust laws, the actual powers of trade unionism as they stand today must be modified.

How and to what extent trade unionism must be modified will

require conference and clear thinking. But certain broad objectives should be achieved.

1. The present use or government to force the growth of unionism must cease. Today only one worker in every three is unionized. More unionism will only aggravate the problem of reforming the system. The unionism now existing presents a sufficiently complex problem for treatment.

2. The present power of trade unionism to fix the price of labor must be abridged to a point where competition can again become a major factor in determining the price of labor. If the closed shop is made illegal, and if "check-off systems" are also abolished by law, the door will be opened for a restoration of competition as a regulator of wage rates.

3. Competitive management must have restored to it the vital powers to hire and fire on the basis of individual efficiency, to use improved technology without interference from labor, to prescribe standards of performance for labor, and to determine the allocation of personnel to jobs. It is management's job to promote efficiency in production. But when management is noncompetitive, it tends to promote *efficiency in order to increase* profits at the expense of jobs and the welfare of labor. Its capacity to injure labor lies in its *capacity to restrict production.* Under competition, however, management is forced to promote efficiency to survive, but the efficiency it promotes results in *more production and hence cannot injure* the interests of labor. Labor is benefited in direct proportion to the degree to which production is increased in a capitalistic economy.

Labor, of course, must be given an appeal to some governmental body which will have the power to prohibit the use of specific technology, or to modify standards of performance where the health or human treatment of workers would be affected adversely.

Competitive management and competitive labor, it should be carefully noted, is something quite different from either *noncompetitive management and competitive labor* or *noncompetitive management and noncompetitive labor.*

Before 1929 management had become largely noncompetitive while labor was competitive. Under that system labor was seriously injured. The rise of giant corporations and the growth of monopoly in industry created a condition of surplus labor. The successful prevention of free competition in business prevented the operation of

competitive industries in which the surplus labor would normally have been absorbed. The need for goods was there. The machinery was there. The workers were there. But monopolists could make more money by preventing business than by allowing it to proceed. So they prevented, and kept the economic engine throttled down. By keeping a few million men unemployed and in a state of despair, other workers with jobs could be kept in a state of insecurity and low wages. It was a perfect system for monopolists *but it was not capitalism* as defined by the classical economists. The chief disadvantage of the worker was not merely that he was poor and weak, but that there were always so many unemployed compared with the number of available jobs. The worker was worried whether he could get a job on any terms. The monopolist was never worried whether he could get men.

Labor was thus competing savagely for a scarcity of jobs. It is in this period that labor naturally *came to hate competition as a regulator of wages* and to strive for union organization that would put an end to it. *What labor today must grasp is that it was the suppression of competition at the levels of management and investment which made competition at the level of labor so harmful to the interests of labor.* Had competition *not* been suppressed at the levels of management and investment in the economic system, it would have been highly profitable to labor at the level of labor. Capitalism in the United States, its natural productive powers unimpaired, would have expanded production to a point where management would have been competing for a scarcity of labor, and from full production labor would have reaped a harvest. It was the secession of capital from natural law which started all the trouble that exists today. Labor cannot make matters better by also insisting on seceding from natural law too.

Under the New Deal, management remained largely noncompetitive while labor became to a substantial degree noncompetitive. Under that system the broken-down condition of capitalism in the United States was made worse. If it persists, the fate of capitalism will be sealed.

But if management and labor can both be put on a competitive basis, competition will reconcile the interests of each. They will become team mates in a program of expanding production. In that expanding production, competition will give to labor its fair share.

At present capital and labor are locked in a foolish struggle to divide up by the use of force scarcity which, no matter how it is divided between the two, will leave millions of Americans dependent on government spending for their daily bread and eventually clap all under the dominion of an autocratic state.

It may be that a good part of trade unionism as it exists today will have to have its activities and powers curtailed to such an extent that it will survive only as an organizational medium for workers to protest in a democratic but nonpolitical way any competitive abuses of management to public agencies having the power to hear and correct them. But whatever is done to modify the present powers of trade unionism—*provided that capital is also effectively reformed*—labor cannot lose. If trade unionism is modified now in the interests of a reformed capitalism, labor will be able to achieve prosperity within a framework of freedom. If it is not, labor will land in the cold embraces of an authoritarian state. In that order, trade unionism will be thoroughly demolished—but its total destruction will then leave labor with no future but slavery.

While capitalism is being reformed, no one in America is going to starve. Government spending will be necessary to tide the system over while it is undergoing sound repair and adjustment. But this kind of government spending will be counteracted by the release of sound productive power in private business. It is government spending that will be on the way to extinction as the economic system is brought back to health. With that kind of a guarantee back of a program to reform capitalism in the United States there surely are enough real men and women in the ranks of labor willing to gamble on prosperity with freedom.[1]

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[1] So long as giant corporations are maintained intact in the economic system, it will be extremely difficult to convince labor that it will make more material progress by permitting a restoration of competition as the regulator of wages than by continuing to employ the monopolistic device of collective bargaining. Labor cannot afford to take its chances with competition unless it can be reasonably sure that competition will be restored and made to work at the level of management in industry, distribution, transportation and investment in the economic system. We have already pointed out that an enforcement of the anti-trust laws against giant corporations involves the grave risk that such enforcement cannot be maintained. There would be the ever-latent danger that the economic and political power of such corporations would be exerted to bring anti-trust enforcement under their control. Should that happen, any progress of labor towards restoring competition as the regulator of wages would prove ruinous to its interests. Labor would be caught again in the old trap of noncompetitive management and competitive labor.

THE BUILDING INDUSTRY

America has been waiting for years for low-cost housing. The efforts of the New Deal to promote its realization were more fanfare than actual accomplishment. There can be no low-cost housing in America until the costs of home building can be brought downward to a substantial degree. This cannot be done until the numerous practices existing in this industry which are causing home building costs to be exorbitant are eradicated. The New Deal did not eradicate these practices. Instead it built homes for the poor at these high costs. Then it either rented the dwellings out at a public loss or sold them under the hammer for an equivalent loss. Furthermore, the New Deal actually built only a few low-cost units. It only touched the surface of the national need for good homes at reasonable prices which has been dammed up for many decades. Today the building industry stands as it has stood for many years, armed and entrenched to prevent millions of Americans from obtaining what the average American most covets in a capitalistic

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The only way to insure a restoration of competition at the level of management in industry, distribution, transportation and investment in American capitalism is for the government to devise and apply a comprehensive program for the dissolution of all giant corporations into smaller units. If that is done labor could then afford to abandon the monopolistic device of collective bargaining for the promotion of its interests. Competition has a far greater capacity to advance the material interests of labor than collective bargaining. Labor is interested in jobs and rising wages. But both the number of jobs available to labor and the level of wages are directly dependent on the volume of production that takes place in a capitalistic system. The volume of production in a capitalistic system in turn depends on the effectiveness with which competition operates in the system. If competition operates effectively production will be constantly expanded and the prosperity of labor constantly increased. But when monopoly controls were introduced into American capitalism at the levels of management in investment, industry and transportation, the competitive mechanism of the system became *incapable of advancing the interests of labor.* The restriction of production by management robbed labor of jobs. The operation of competition at the level of labor forced existing wages down to a minimum as surplus labor battled for a scarcity of jobs, thus insuring maximum profits to monopolists. Competition having been stifled at the levels of management and investment, the competitive mechanism could no longer function to increase production and to raise standards of living for labor. Once this condition developed, labor was caught in a trap. The failure of government to repair the competitive mechanism by restoring competition at the levels of management and investment, caused labor to turn also to the use of organized force. It had no alternative but to attempt to fight monopoly with monopoly in the hope of dividing up scarcity more equitably. So labor pegged its price, fought off strike breakers, and waged war on labor-saving machinery which increased profits by destroying jobs.

And though the nation has become painfully aware of how labor has abused

society—a durable and comfortable home. If this industry can be disarmed in the public interest, it can make a tremendous contribution to the recovery of capitalism in the United States. It can become as capable of expansion as the automobile industry was at the turn of the century. It can be made to furnish millions of jobs, investment opportunities running into billions. It can do a great deal to strengthen the loyalty of the American people to capitalistic enterprise. But the problem of freeing the enormous latent productive powers of this potentially vast industry must be tackled as an integrated problem.

The monopolistic practices of manufacturers and distributors of building materials and household appurtenances must be terminated by a ruthless enforcement of the anti-trust laws.

The practices of labor in this industry which unnecessarily raise costs and prices must be dealt with equally firmly either under existing law or new law.

The building codes of many cities which have given legal protection to the conspiracies of manufacturers, distributors and work-

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its use of organized force, there is a tendency for otherwise fair-minded people to overlook the fact that capital has committed and is still committing equally reprehensible offenses against the national welfare. Private monopolistic power in a capitalistic system is *per se* an abuse of the most serious kind, whoever exercises it. No economic group in history ever acquired private monopolistic power without using it to injure economic society in general and to promote its special interests in particular. No fair-minded person can hold labor today more guilty of exploiting American capitalism than capital. The vital point is for both capital and labor to perceive that *the exercise of monopolistic power by either will be fatal to both. The exercise of monopolistic power by capital broke American capitalism down and made it dependent on government spending. It set the stage for the ultimate triumph of the autocratic state in America. The exercise of monopolistic power by labor at the present hour is operating only to bring that catastrophe on more quickly.*

Today monopolized capital and monopolized labor are fighting a fruitless battle on the strike front. This contest if prolonged can only end in the ruin of both in an authoritarian state. Only a restoration of competition throughout the length and breadth of the economic system can assure either capital or labor a prosperous future in a free society. *A dissolution of giant corporations by the government would leave labor with no legitimate excuse to oppose a dissolution program applied to unions. Their treasuries could be impounded, the funds distributed back to the workers, and workers forbidden to act in concert to fix the price of their hire or to collect strike funds.*

Fair competition at the level of management cannot injure labor, and if competitive management exists labor cannot be allowed to resort to monopoly to protect its interests. *Competitive management and non-competitive labor* would be as *fatal* to the recovery of American capitalism as *non-competitive management and competitive labor.* The interests of labor are best protected by expanding production in a capitalistic system. But competition cannot function to produce this result unless *both management and labor act competitively.*

ers in the building industry to keep building costs up must be proceeded against and dissolved, either under the anti-trust laws as restraining trade, or by new law which will cure any defects in the monopoly laws to reach such codes.

Finally, the excessive hourly wages of certain highly specialized workers must be reasonably reduced either by voluntary actions on the part of their unions or by government compulsion.

COORDINATING REFORM

The work of reforming American capitalism must be coordinated. The services of a commission which will sit continuously for a number of years will be necessary. There are many other points in the economic system that call for adjustment, other than those indicated. The function of such a commission should be to secure reform under existing agencies and law where that can be done, to recommend to Congress additional legislation which will be needed, to report every six months to both Congress and the President on the progress accomplished and difficulties encountered, to hold hearings to obtain any data or information necessary to form the basis of its policies, or to appraise the efforts of other agencies to enforce regulations related to the reform of the economic system, and to seek through the method of conference the cooperation of capital, labor and agriculture in the work of the commission.

Such an agency must have adequate appropriations. An initial appropriation of two hundred and fifty millions would not be too large. If three hundred billions can be spent to protect American democracy and the American standard of living from Hitler and Hirohito, the nation could well afford to spend a few billions to protect that democracy from internal economic disintegration and that standard of living from permanent decline under a home-grown authoritarian state.

Such a commission would, of course, be futile if headed by commissioners who are not sincerely determined to reform capitalism or if its expert staff is not equally interested in the accomplishment of that end. The securing of the right kind of leadership and personnel for such a commission does present a problem. America, at the present hour, is full of leaders and experts who either wish to continue the exploitation of the economic system or to substitute

for capitalism an authoritarian economy. Whatever the risk that the purpose of the commission may be sabotaged by the wrong kind of leadership and personnel, it must be taken. The tremendous task of reforming capitalism in the United States necessitates the services of such an agency.

CHAPTER XIV

THE AUTHORITARIAN DELUSION OF ABUNDANCE

THIS book has been dedicated to the proposition that political liberty is possible only in a soundly functioning capitalistic economy. To an intelligent minority in the world, liberty is the basic value of civilization. Its preservation is the chief concern of philosophy. Some people would rather be free and live on a crust than be unfree and live in the midst of plenty. To the man in the street, however, liberty has always been of less value than subsistence. Tell this common man that you have a plan to lift him out of his grinding poverty and bestow upon him material comfort and security, and he will always listen eagerly and be inclined to support your plan since he has nothing to lose from an economic standpoint. Intelligent critics of your plan may tell him that its execution will deprive him of his freedom to vote and participate in democratic government, but he will give little weight to such an argument, particularly if he is told that your plan also makes provision for the preservation of his liberty.

Today, the authoritarian economies of Germany and Italy are discredited. But the destruction of Mussolini and Hitler has not destroyed the menace of authoritarianism in the world. Millions of people in the world still believe that abundance for the common man can be realized only through government control and management of production. Even if these people knew—which most of them don't—that such an economic system would inevitably create dictatorship and extinguish freedom, the prospects of plenty would still entice them. Liberty which cannot be translated into a decent subsistence is lightly valued.

Now the greatest tragedy of an authoritarian economic system is not alone that it creates political slavery, but that the publicized prospects of abundance in it are delusory. The structure of such an

economy is in fact as hostile to the creation of abundance for the masses as it is to the preservation of liberty. Actually, it is in a soundly functioning capitalistic system that the masses have the best chances to achieve maximum standards of living. Let us now see why this is so.

The condition which always depletes the productive powers of a capitalistic system is plutocracy. When a plutocracy generates within such a system, its natural capacity to produce is immediately restricted. In a soundly functioning capitalism, plutocracy does not exist and the system is free to produce. A desirable condition of relative inequalities in wealth exists, but extreme inequalities caused by the flourishing of predatory business techniques are prevented. Extreme inequalities in wealth create plutocracy, and from such inequalities stems the economic and political power which is invariably used to restrict production in a capitalistic economy. If democratic government provides proper regulation for the system, particularly maintaining competition in it, no individual or group of individuals has the power to stop production. The natural selfishness of human nature is then so organized that its expression promotes and does not interfere with production.

For thousands of years idealists have talked about the necessity and possibility of eradicating in human nature the deeply rooted desire of the individual for individual gain. This has been called selfishness by idealists and its elimination has been the central plank in all Utopian programs. But since the beginning of history, the acquisitive spirit has proved to be irrepressible. An economic system which seeks its total repression is building hope on quicksand.

Now the acquisitive spirit is not bad *per se*. There is nothing morally wrong in one man being richer than another, provided he *earns* his wealth and provided its amount is not sufficient to permit him to prevent others from producing wealth. Where wealth is *earned* in a capitalistic system, as distinguished from the case where it is merely diverted from one pocket to another by the use of predatory business practices, the greater gain of the more efficient is also a gain to the entire community. Under these conditions, men grow rich only by improving the economic condition of the people as a whole, and natural law, properly enforced by democratic government, prevents the rich man from becoming so rich that he has the power to interfere with production.

When business men are prevented from employing predatory techniques, when the rules for making money are designed to compel the earning of wealth and are enforced by democratic government in a capitalistic economy, there is always sufficient competitive business ability in a nation to keep the individual accumulation of wealth within healthy limits. The opportunity, however, for the more efficient to reap greater rewards for their efficiency operates to stimulate maximum production in such an economy. Far from being immoral, the existence of relative inequalities in wealth in a capitalistic society is a *highly moral condition,* since it contributes directly to the improvement of the economic condition of the people and the diminishment of poverty.

The acquisitive spirit is bad only when it gets out of hand and out of bounds, when it is permitted to racketeer, to concentrate wealth unduly, to suppress production, and increase poverty. Capitalism which seeks to work with the strongest trait in human nature and to keep it within bounds rather than attempt the impossible task of suppressing it, alone offers a sound pattern for the realization of abundance.

In a capitalistic system, it is to the selfish advantage of every individual to make democratic government compel business men properly to operate the system. If the system is properly operated it will yield a subsistence prize to every individual. If it is misoperated, only a few will profit. At this point the socialist will naturally say: "What you state is all very fine, but in a capitalistic system the acquisitive spirit always gets out of hand and destroys the system. Thousands of years of history establish this fact beyond dispute."

Our reply is that the remedy proposed by the socialist would make it possible for the acquisitive spirit to *get more completely out of bounds.* The only effective antidote for predatory acquisitiveness is *political liberty.*[1] So long as a capitalistic system lasts, whatever its degree of misoperation, there is always *political liberty left in the*

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[1]There is the bloody and cumbersome tool of revolution. But the purpose of all revolutions which have resulted in progress was to *create political liberty* which could be used to keep in subjection the supreme predatory acquisitiveness of despotism. Revolutions, as has been pointed out, generally result in the creation of political liberty *only for a class* which has been exploited by despotism and which has had sufficient economic power to bring revolution about. The acquisitiveness of class rule, however, exploits the people and as the people acquire sufficient economic power, they achieve political liberty as a device for curbing the acquisitiveness of the class.

system. There is, in consequence, always the possibility of reforming the system and making individual acquisitiveness function productively. Socialism, or any other type of authoritarian economic system, *is dictatorship* whether it is called communism, totalitarianism, the corporate state, or just plain socialism. Dictatorship, by eliminating all political freedom, *releases the acquisitive spirit from all control.*

The theory of the socialists that socialism would be operated by unacquisitive men is merely a tragic illusion. An authoritarian economic system invariably liquidates the old plutocracy of the capitalistic system which it supplanted, but it does not thereby get rid of the problem of plutocracy. On the contrary, the economic consequence of such a system is to create a new and more powerful plutocracy—the ruling class of officials—and to give it *unlimited power* to exercise its acquisitive instincts. Let us examine this point historically.

ANCIENT ROME

When the Republic of ancient Rome passed into dictatorship and that dictatorship progressed into absolute monarchy, a new plutocracy was created. This plutocracy was the official class of the Empire (the Emperor, his friends and favorites and the officials of a vast bureaucracy) which in time cornered for itself the wealth of the old plutocracy of the Republic and effected a still more formidable concentration of wealth. Under the increased pressure of concentrated wealth the Roman economy became devoted primarily to satisfying the luxury appetites of the all-powerful governmental plutocracy, while the volume of production available to meet the needs of the people became insufficient to avoid chronic famine and terrible poverty. The bureaucracy of the Empire, working on behalf of "a caste which was tiny in number" was able "at most to turn the poverty of fifty nations into wealth for itself."[1]

For a few years of public works and government jobs under Octavius, the Roman people bartered away their political freedom in the hope that an all-powerful government run by Octavius would permanently better their lot. The government, however, fostered a plutocracy more greedy and more capable of satisfying its greed than the plutocracy of the Republic. Production, instead of increasing,

[1]Paul Louis, *Ancient Rome at Work.*

declined and the pitiful descendants of the unthinking Romans who had cheered the good and benevolent Octavius for his policy of government spending, found themselves in an economy of greater scarcity and without any power to restrain the rapacity of the new plutocracy.

MODERN DICTATORSHIP

Octavius did not build his dictatorship by the use of any economic ideology which sought to convince the people that an all-powerful state would best serve their economic interests. The concentration of economic power in the Principate which was ultimately to prove fatal to Roman democracy, was accomplished without any program of justification to the people. Nevertheless, the Roman people without the promulgation of any formal ideology believed that an all-powerful government run by Octavius would be to their advantage. The spending of Octavius completely disarmed what little suspicion the people might have had, disillusioned as the people were by the failure of Roman democracy to protect their economic interests. In the modern world, the creation of dictatorship has utilized carefully formulated ideologies to justify to the people the control of the economic system by government. Does the existence of such ideologies insure that modern dictatorship will not betray the economic interests of the people, as occurred in the dictatorship created by the pre-Christian Octavius?

What is the essence of such ideologies? They are merely promises that the ruling official class of a modern dictatorship will make the economic system function in the interests of the people. Do such promises have to be kept? The answer to that is "NO." Will they be kept? Have Communists, Nazis or Fascists demonstrated to the world that they are persons more honorable in keeping their word than the politicians of democratic societies? Do ideologies insure that the ruling officialdom of any modern dictatorship will be composed of persons who will display year in and year out virtues of unacquisitiveness unknown in the history of the world save in brief periods of monastic life, persons who will be willing to toil for the masses at reasonable compensation and who *will resist temptation to use the economic system for their own enrichment as a class and the impoverishment of the people as a whole?*

Before the late war the men who took over Russia, Germany and Italy in the name of the people and for the professed promotion of the economic interests of the people had displayed convincingly a spirit of individual acquisitiveness which compared very favorably with that of capitalistic plutocrats. Among these men there was no lack of appreciation of luxurious living. They looked after "number one" with amazing alacrity. In Russia, Germany and Italy, thriving new plutocracies had supplanted the bourgeois plutocracies of Czarism, Republican Germany and Italy. The new plutocrats had quickly reached out for the most imposing mansions, the best food, wine, clothes, automobiles and yachts. Having the power, they speedily appropriated to their use all the old comforts and luxuries of the deposed millionaire class. They became in effect their heirs. Mussolini with his numerous villas and his equally numerous mistresses, Hitler with his royal retreat at Berchtesgaden, his lavish eagle's nest atop Kehlstein Mountain, with wine cellars stocked with 1865 brandy poured into gold-rimmed, crested crystal goblets, reached by an elevator that climbed 430 feet through a shaft in the solid rock of the mountainside, proclaimed the prosperity of the new plutocrats.

In the land of the Kremlin, too, the same sturdy acquisitive spirit had manifested itself among Commissars and Generals. Even in the midst of the recent war the luxurious tastes of the Russian bureaucracy were described. Published accounts of Russian state banquets were illuminating. The rare and costly service, the purple champagne, the numerous dishes of delicacies, the lavish display of personal jewels, would not have done discredit to the court of Louis XIV.

Before the late war Russian communism, after nearly a quarter of a century of trial, was *still an unfulfilled promise of abundance for the masses*. The luxuries enjoyed by Commissars and Generals were as much beyond the reach of the average Russian as they were beyond the common man in capitalistic nations such as America or England. Communism did improve the economic condition of the people to a degree. This was not a tremendous accomplishment when one considers the poverty of the Russian people and their mental backwardness under Czarism. But the fact remained that the common man in Russia had a *far lower standard of living* under communism than the average American or Englishman in capital-

istic systems, the producing powers of which had been seriously restricted. Capitalism, in spite of its misoperation, had created a living standard far higher than existed in communistic Russia. The Russian ideologists, living in plutocratic comfort, had an explanation for the failure of communism to make good on its pledge of abundance to the masses. Preparation for war, it was pointed out, had forced the diversion of labor into the production of war supplies and prevented its use for civilian needs. Granted that this was true, it was also true that preparation for war imposed *limits on the acquisitiveness of the new plutocracy in Russia.* The economic system could not be freely used by the new plutocracy to promote its class interests. The rulers of Russia, fearing destruction from the outside and appreciating their new comforts, did work efficiently to prepare the nation for defense as the ensuing war disclosed. A period of sustained peace would be necessary before the new plutocracy in Russia could be given a free hand to look out effectively for its own interests.

The possibility of such a period is now before Russia. What would be its effect on the principles and pledges of communism? Always in history, when a plutocracy has been created, it has never failed to sacrifice the economic interests of the people for its own advancement. Russian communism in the post-war period is structurally loaded to gravitate as freely in the direction of sacrificing the economic interests of the people as was the authoritarian economy of the Roman Empire. For a period, the repair of the damage caused by the war will delay matters. But as the rejoicings over victory grow dim, the period of patriotic comradeship will pass. Then time and individual acquisitiveness, free of all restraint, will begin their deadly work on the communistic pledge of abundance for the masses. On the principle that a brick pushed off a ledge will fall to the ground, plutocracy in Russia will not fail to use the economic system to satisfy the normally illimitable appetites of any plutocracy for luxuries and the ownership of material things. Labor will be diverted from the production of staples for the masses to the production of luxuries for the ruling class, which will include a well-fed and pampered army. It will be diverted from producing clothes, food and shelter for the people to the building of great public highways, magnificent public buildings and private mansions. Russia, like Rome, will be adorned with public works, sculpturally and

architecturally beautified for her masters, while the people will be held down by force and doomed to a bare subsistence, their dream of abundance as cruelly shattered as that of the descendants of the Romans who followed the leadership of Octavius into the trap of dictatorship.

The plutocratic exploitation of the economic system may be carried out under the forms of communism and accompanied by periodic national celebrations in honor of its founding fathers. Or those forms may even be gradually altered to increase the effectiveness of the ensuing exploitation.

The structure of communism presents a basic difficulty in the production of luxuries, and the production of luxuries is a fundamental objective of plutocratic exploitation. For instance, to use a hypothetical illustration, the ruling plutocracy in Russia might decree that all its wives and daughters and female relatives should have one hundred new dresses each year. But dresses of what style and of what material? Communism at such a point encounters the problem of satisfying individual tastes. This problem can be solved only if producers of luxury goods are free to exercise their imagination, and the consumers of such goods are free to choose the kinds they desire. The freedom necessary to do this is found only in an economic system which permits luxury industries to be privately owned and operated, which provides for the use of money, for prices expressed in terms of money, and the receipt of money income. Furthermore, the whole doctrine of communal ownership of the means of production thwarts the powerful instinct of plutocracy to own that kind of property—industries—which confer on their owners marks of individual prestige and importance. Plutocracy, whose dominant trait is individual acquisitiveness, invariably seeks its ends in institutions of private property which make it possible for acquisitors to define the greatness of their personalities in private ownership and to satisfy effectively their individual tastes for luxuries.

Hence, as plutocracy in Russia seeks a maximum realization of its personality, communism may become converted into a monarchical type of authoritarian economic system such as existed in the Roman Empire and in France under Louis XIV. This type of economic system affords maximum opportunity for plutocracy to satisfy its acquisitive yearnings. Should Russian communism be con-

verted into such an economy, all economic activity would continue to be the creature of the state. But private ownership of the means of production would emerge. Industries, however, would be operated as private monopolies, either belonging to friends of the dictator or to him personally. A money economy would be developed and private income sanctioned.

Whether plutocracy exploits the Russian people under the forms of communism or whether those forms are gradually altered in the direction of establishing a monarchical type of authoritarian economic system, the present political structure in Russia will move towards a monarchical political pattern. Russian plutocracy will in time confer on itself hereditary economic and political privileges and function in substance like the nobility of a monarchy. The present power of Stalin will be incorporated into a hereditary and permanent office and monarchy, in substance, will have re-emerged in Russia. The transition from a Lenin to the plutocratic exploitation of the people may be gradual and even accompanied by the ceremonial preservation of the memory of the founding fathers of communism. Christian and capitalistic plutocrats have continued to pay Sunday homage to the Man of Galilee whose whole philosophy is a stinging rebuke to their excessive greed and the practices by which they plundered and exploited humanity.

The prediction that communism in Russia will degenerate into a thoroughgoing exploitation of the masses is not a new thought. In the nineteenth century the great social philosopher, Herbert Spencer, observed that socialism was structurally defective as a sound economic order in that it afforded maximum opportunity for the exploitation of the masses and put a premium on the exploitation. Said Spencer:

> A second rejoinder is that the administration [of a socialistic state] will presently become not of the intended kind, and that the slavery will not be mild. It is assumed that officialism [in a socialistic state] will work as it is intended to work, which it never will.[1]

Given the vigorous plutocracy which has already emerged in Russia, given the unfettered opportunity which exists for that plutocracy to enrich itself, the prediction that communism will degenerate into a ruthless exploitation of the masses is not fanciful or

[1]Herbert Spencer, *Man Versus the State.*

unreasonable. The acquisitive spirit consumed ancient Sparta and the Spartans thought they had erected a society foolproof against its corrosive effect. For thousands of years the acquisitive spirit has wrought havoc, even in holy places where men through arduous spiritual training have been rigorously conditioned to keep it down. Will the ruling class in Russia, which has already demonstrated to the world a lusty appreciation of luxury and material gain for itself and a brutal contempt for human life under its iron heel, hold it in check? The foolish optimist may say, "Yes." But no prudent man can do less than admit that the risk is formidable that it will not. It still remains to be seen in post-war Russia whether the Commissars will work for the people or the people will work for the Commissars. Communism, like any other authoritarian economy in the world today, is still an unfulfilled promise of abundance to the masses and a promise that has more than a fair chance of remaining unfulfilled.[1]

When a capitalistic system breaks down in permanent unemployment, the acquisitive spirit has got out of bounds and has caused all the trouble. But the cure for this condition is not experimentation with an authoritarian economic system. It is only the preserving of political liberty that offers any hope of controlling the acquisitive spirit or of advancing living standards for the masses. The capital-

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[1]The prediction that communism in Russia will result in a thoroughgoing exploitation of the Russian people, *is premised, of course, upon the continuance of an authoritarian state in Russia.* But in view of the evidence of history a different development of Russia is possible. We have already seen that it was the rise of modern capitalism in England and France which destroyed the authoritarian states that existed in them, set in motion economic forces which ultimately brought democratic government to the surface in both, and opened up a remarkable period of economic progress for the people. History demonstrates that authoritarian governments are no more immune to destruction through the movement of economic forces than are democratic ones. Human acquisitiveness, which in certain periods of history is seen operating to corrode away the economic foundation of free government, is seen in others functioning to disintegrate the economic foundation of autocratic government. Russia is a vast nation teeming with virgin natural wealth. It is capable of tremendous internal expansion and development. Siberia, thinly populated, is quite capable of playing the role that the West did in the development of economic freedom and democratic government in America. It is not impossible that Russia may go through a period of exploitation under an authoritarian state operated by pseudo-communists, followed by a period in which the forces of acquisitiveness bring into existence a new cycle of capitalism and democracy in the history of the world. Russia might become the great democracy of the twentieth or twenty-first century and astound the world with its material progress just as the United States did in the nineteenth.

istic system must be reformed, its natural productive powers released.

Contrasted with the unfulfilled promises of authoritarian ideologies to raise standards of living for the masses, modern capitalism has an unequaled record of performance. Under modern capitalism, the world has made more material progress in three or four centuries than in all the thousands of years that lie in the past. Only a few hundred years ago the principal nations of the earth were ruled by absolute monarchs whose despotic political power was rooted in authoritarian economic systems. In this static economic world, filled with poverty and disease, the faint beginnings of competition in trade and industry became discernible in England. These were the birth pangs of modern capitalism. As the area of competition in the economic sphere expanded, men began to emancipate themselves from tyranny, and the common man began to make real economic progress. The minds of common men, dulled for centuries by despotic regimentation, began to stir. From these unknown brains came forth a veritable Niagara of new ideas—better methods of production that were to create millions of mechanical slaves to serve the material needs of man—new conveniences which brought many of the luxuries enjoyed only by rich of the old order into the homes of common people, and added wonders unknown even to kings of the past—revolutionary techniques in medicine and public health which were to more than double the life expectancy of the average individual in the great capitalistic nations. An atmosphere of political freedom stimulated the birth of new ideas, and economic freedom made it possible for enterprising men to put them into execution for the benefit of all mankind.

The enormous productive power released by modern capitalism may be grasped by noting the phenomenal increase in the population of the world. But for the development of modern capitalism, this unprecedented growth of population would have broken down in intolerable famine. A. M. Carr-Saunders in his work *World Population* estimates that in 1650 there were around 545,000,000 people on the earth. At that time man had been in existence for "a million years—possibly two million (nobody knows for sure)—and had been steadily reproducing himself all that time." By 1900 the population of the world had trebled. In a century and a third (1800–1933) mankind had not only more than doubled its "numbers but added more units to the human total than in the previous span of its existence."[1]

[1]Henry Pratt Fairchild, *People.*

A vital factor in the phenomenal progress of the modern world under capitalism has been new ideas, and only by more ideas can this progress be conserved and advanced. Even if capitalism were put on a soundly functioning basis in the United States, so that the fullest natural capacity of the system to produce and distribute wealth could be realized, it would not be possible with the present state of technology to give every American abundant leisure and complete comfort. Even if Russian communism should squeeze every ounce of productive energy from the system in an heroic and honest effort to raise living standards for the Russian people, it would not be possible to give every Russian abundance and leisure. It will take still better technology—indeed, revolutionary technology—to bring this goal within sight. It will take more technology to keep the world from losing productive power as natural resources grow increasingly exhausted. In the United States we are already faced with the problem of waning natural resources. Where will technological progress appear? To date Russia has produced no technology. She has borrowed from neighbors whose economic and political freedom for the individual has sown and reaped the greatest harvest in inventiveness the world has ever known. Should these fruitful neighbors adopt authoritarian economies, from where will technological progress come in the future? It has never come from the womb of bureaucracy. Only in competitive markets has mankind made economic progress.

In America, the ultimate exhaustion of our natural wealth may be prolonged indefinitely if American inventiveness continues. We may learn how to harness the tides for power. We may discover how to unlock the energy of the atom. We may find out how to draw kinetic energy from the stratosphere, or tap the internal heat of the earth by sinking shafts miles in depth. We may find "ergs" aplenty to furnish the power and the raw materials to raise and sustain continually our standards of living as a people, in spite of the changing face of physical nature. But it won't be done under despotism where the brains of common men will be made barren and sterile by bureaucratic regimentation.

Here in America is the best chance to save capitalism and democracy. The raw materials are all at hand and under our control for furnishing full employment and rising standards of living to the people. If, under these unusually favorable conditions, capitalism and democracy cannot be saved here, they will fail elsewhere. If that

happens, Hitler will have been but the premonitory symptom of a new age of autocracy in the world. Modern democracy, like ancient democracy, will fade away. Somewhere in the future, competition will emerge to start new cycles of capitalism. New free governments will be hewn out of old rocks of despotism, or, in parts of the earth at present undeveloped, peoples will be battling in new forums of freedom for economic justice. But unless the democrats of this future are wiser than those of our day, liberty and economic progress will again be immolated on other altars of concentrated wealth.

APPENDIX A

SPECIAL TYPES OF CONGLOMERATES

Two types of "conglomerates" should be particularly mentioned. One type may be called the *utility conglomerate*. A utility corporation, in so far as its activities are confined to the furnishing of a specific utility service, is *a lawful monopoly*. Ordinarily, therefore, size in utility companies has no bearing upon the problem of maintaining competition in American capitalism since utilities are permitted a non-competitive status by act of government. But when a utility company can control "other businesses" which are supposed to compete for the patronage of the public, it is in a position to injure or destroy competition in that large sector of the economy where the preservation of fair competition is of supreme importance. A utility company may often be of very large size with assets running into many millions. If it controls other businesses which are supposed to be operating on a competitive basis, it can bestow upon such businesses unfair competitive advantages. It can subsidize them directly. Or it can employ its far-flung economic power to dictate business for such companies. Where competition is supposed to govern trade, the obtaining of business is not always the result of competitive merit. A corporation may thrive in the business world not because it is competitively efficient but because it has financial contacts and economic power which *can command business*. In the labyrinth of interlocking directors and monopoly controls business may be simply allocated on the principle of "you scratch my company's back and we will scratch yours." The independent business striving to succeed on sheer competitive ability cannot cut in on such kind of orders. It may fail just because it cannot cope with such unfair competition. Hence a utility conglomerate can contribute to the destruction of competition in the economic system.

At the present time the Federal Securities and Exchange Commission, under the provisions of the Public Utility Holding Company Act, is engaged in breaking up electrical and gas utility conglomerates. Such utilities are being compelled to stick to the single enterprise of furnishing either gas or electricity and to divest themselves of *other businesses* which they have acquired. Hence the Federal government is giving a practical demonstration that giant corporations *can be broken up*. The Public Utility Holding Company Act is a step in the right direction. But this governmental policy should be extended to other utility fields, particularly that of telephonic communication.

One company in this field has been for many years a conspicuous example of a utility conglomerate. This vast corporation is not merely in the telephone business. It is in numerous other businesses and the scope of its activities is truly bewildering. It controls companies making turntables for mortuary parlors, electro-surgical knives, general medical equip-

ment, aids to hearing, terminal apparatus for submarine cables, acoustic engineering apparatus, race-timing apparatus and other products. This company, in fact, controls some *two hundred* corporations, a goodly number of which could and should be operated as independent companies. When one surveys the enormous economic power wielded by this titan corporation, the possibilities of a small manufacturer's cutting in on the business of the companies it controls through sheer competitive ability are slight, indeed.

In general, utility companies should be confined to furnishing one kind of service. In addition, both Federal and State regulations should be tightened up to prevent such corporations from employing the economic power which necessarily accompanies their size to defeat the efforts of government to establish fair rates. Finally, intelligent public opinion should resist the efforts which are being made to convert industries which can and should be operated on a competitive basis into public utilities. During the hearings of the Temporary National Economic Committee, it was urged that certain large food processors be given a public-utility status. There has been subsequent agitation to give the oil industry a public-utility status. These are dangerous trends. Public-utility regulation has been notoriously ineffective. Many large corporations in danger of prosecution under the anti-trust laws would be happy to obtain an immunity from such laws and to submit to regulation which they know is not likely to interfere with their obtaining of excessive profits. An industry should be given a utility status only on the grounds that competition is indefensibly wasteful or that competition cannot be made to work in it. In neither the oil industry nor the food-processing industry are these grounds present.

The field of transportation also presents a problem in corporate conglomerates. In this field, though competition is supposed to regulate rates, large-sized corporations are frequently necessary to give effective transportation service to the public. No one can object to such size where it is necessary to furnish service. But should railroad companies be allowed to control motor carrier lines in competition with them for freight and passengers? Should they be allowed to control water carriers, also in competition with them for traffic? Should they be allowed to control taxicab companies or other businesses? It should be fundamental policy not to permit one form of transportation to control another, and laws have been enacted prohibiting this result. But these laws have been made meaningless, with the result that railroads have been able to acquire competing forms of transportation. Also no transportation company should be allowed to control other businesses.

APPENDIX B

SEPARATING DISTRIBUTION AND PRODUCTION

A program to break up giant distributive corporations should *squarely face the vital issue of separating retailing and other phases of distribu-*

tion in general from production. The fusion of retailing and production has resulted only in *unfair competition* which has been an important factor in fostering the growth of giantism in distribution which in turn has culminated in monopoly. Consider a typical case of a chain-store corporation which not only operates numerous retail outlets but also manufacturing plants. In such a corporate set-up there are in fact *three separate businesses* combined. There is the manufacturing business. In the center there is also a distributive business. Of course, where retailing and production are joined together, distribution costs cannot thereby be avoided; the products of the manufacturing plants must be moved to the retail outlets and this work will necessitate an investment in personnel and equipment. Finally there is the retail business.

Now if the manufacturing plants sold their products at prices which yielded a fair return on the capital invested in them, and if the distribution system delivered such products at a further mark-up sufficient to yield a fair profit for this work, the economies resulting from the integration of retailing and production would be small, if any, on the retail front *in a soundly operated capitalist economy.* In a misoperated capitalist economy where monopoly has spread in industry, the combining of distribution and production may enable the retail part of such an integrated organization to avoid paying monopoly prices for products. A savings will result which will make it possible for the retail business to sell more cheaply than competitors who must purchase at monopoly prices. One may concede that one of the motives causing integration in distribution was to avoid paying monopoly prices. But in a soundly operated capitalist economy such savings would not exist. Their existence in a capitalist system where monopoly has spread in industry is no justification for the combining of distribution and production in a soundly operated capitalist economy. We are here considering the undesirability of permitting distribution and production to be combined in an American capitalism which has been adequately reformed so that it can be operated soundly. In such a capitalist system the total economies derived from combining distribution and production would not give the retail outlets of such an integrated organization a *price advantage substantial enough* to permit them to expand formidably at the expense of other competitors who are engaged solely in retailing. Indeed, there is reason to believe that the combining of retailing and production results in no economies if this kind of combination is contrasted with a competitive order in which manufacturers, middlemen, and retailers compete independently of one another. The specialization of management which occurs in such a system is likely to be more efficient and achieve greater economies in consequence than where one management attempts to manage three businesses, as occurs when retailing and production are combined. Whether this is true or not (and the subject should be explored), one thing is certain. Whatever the economies are which may result from the combining of retailing with production, they *are not sufficient* to give such a concern a preponderant advantage in price on the retail front.

That preponderant advantage is secured by using the manufacturing

and distributive parts of such a combination *to subsidize* the retail business. Profits which should be properly allocated to manufacturing and distribution *are conscripted* to promote the retail business. Through such subsidies, the retail business *can afford a price differential which will play havoc with independent retailers who are purely retailers and not able to collect subsidies from manufacturing and distributive businesses.* Such a retail business is then able to expand its volume of business to a point where from volume alone it can make a profit sufficient to earn an excellent return on its manufacturing, distributive, and retailing activities taken together. Or its volume can become so great that such a corporation can ultimately impose monopolistic prices on retail markets and earn on its total investment monopoly profits. The growth of volume on the retail front achieved by using profits from manufacturing and distribution operates *pari passu* to further augment the power of the integrated distributor to grow unfairly at the expense of its competitors. With volume comes bargaining power which can be used against other manufacturers, against the producers of raw materials and agricultural products to obtain unfair price concessions. So bigness, nourished in this way, rolls on like a snowball until it overwhelms retail markets, leaving in its wake numerous competitors who perished from unfair competition.

To permit distribution and production to be combined in a reformed American capitalism would also be unfair to regular manufacturers. Independent and competitive manufacturers could not afford to sell their products *at cost or no profit* in order to protect the interests of their independent retailers. Markets would be unfairly taken away from them by integrated distributors who would be able to obtain their manufactured products at cost or no profit and who could consequently progressively destroy the retail outlets of regular manufacturers. Against this kind of unfair competition independent manufacturers would be helpless.

In general, no distributor should be allowed to engage in production. Nor should a distributor be allowed to engage in more than one phase of distribution. A retail corporation, for instance, should not be permitted to operate a brokerage business engaged in buying and selling commodities in competition with its own lines for other members of the trade in general. More efficiency will result in a capitalist system if distributors are compelled to stick to distribution and producers to production. The fields of distribution and production are sufficiently broad and complex to yield genuine economies from the specialization of management. The combining of distribution and production interferes with managerial efficiency which would flow from such specialization.

APPENDIX C

METHODS FOR DETERMINING TRANSPORTATION RATES

Theoretically, there are only two ways that railroad rates can be determined if the public interest is to be protected. One way is to *endeavor*

to make competition determine them. The other way is to declare the railroads a public utility and have the Federal government prescribe what rates should be.

The public-utility method raises a formidable problem in feasibility. First, the government would have to determine the value of railroad properties. In the twenties the government attempted to do this. The valuation arrived at proved to be unsatisfactory from the standpoint of preventing railroad rates from contracting business in the economy. The rate increases granted by the Interstate Commerce Commission to provide a fair return on its huge valuation of railroad properties immediately operated to slow business down and contributed materially to the crash of the economy in 1929. But there is another stumbling block in the regulation of railroads as a utility. There would be the staggering task of having the Interstate Commerce Commission attempt to set rates that would be fair.

In the case of an average utility only a few rates at most have to be prescribed by the regulating body. In the case of the railroads, the ICC would have to pass on literally hundreds of thousands of different rates. And if the rates sanctioned yielded more than a fair return on the value of railroad properties (assuming that a reasonable rate base could be arrived at), what particular rates should be reduced? The problem would be practically insoluble from the standpoint of doing justice to the thousands of products involved. Moreover, the arbitrary determination of railroad rates by the ICC would give that body a life-and-death power over the economic system—a power which in the light of the complexities of the problems involved and the frailties of human nature would be dangerous in the extreme. Consequently one school of economic thought rejects the public-utility approach to the problem of determining railroad rates as unworkable and one that would be disastrous to the economy if tried.

While admitting frankly that competition cannot be made to work as satisfactorily in the railroad industry as it can in other industries, and that at best it leaves much to be desired as a solution to the problem of rate-making in transportation, this school believes that competition is the only feasible method.

Railroad managers, not subject to banker control, should be permitted *to discuss rates and to publish rates.* But they should not be allowed to hold conferences *to fix rates.* The present system must also be reformed with respect to freeing the initiative of individual carriers to proclaim competitive rates. Under the present system, the individual carrier is exposed to various legal and economic pressures which compel it to act with a group rather than as an individual in determining what rates should be. The individual carrier is prevented from initiating rate reductions on its own properties, a condition which largely throttles competitive rate-making. The dangers of destructive rate wars which those opposing competitive rate-making always emphasize is provided against by the power which the ICC now has to establish minimum rates. A proper use of this power would prevent unreasonably low rates while

affording a wide latitude for healthy and beneficial competition among carriers.

Those who advocate that railroad rates be determined by competition stress the fact that very little has been done to make this method work. Instead, the government has negligently permitted private groups of interests to build networks of controls for the suppression of competitive rate-making among carriers. If the government will only make a determined effort to uproot these private controls, to prosecute vigorously all attempts to fix rates, to protect individual carriers from retaliative pressure so that they will be relatively free to initiate rates, they believe that competition can be made to work as an effective regulator of railroad rates. Competitive rate-making, in turn, will make it possible for railroad rates *to be adjusted to the needs of business and to support an expanding economy.* The public-utility approach to this problem would only result in a rate base requiring such high rates that the economy's recovery would be seriously if not fatally retarded.

The Bulwinkle bill proposes a completely unsound solution to the problem of determining railroad rates. It would legalize the network of controls which have been built up in the railroad industry to suppress competitive rate-making by empowering the Interstate Commerce Commission to sanction agreements of carriers to fix rates. Approval of a rate-making agreement by the Commission would operate automatically to bar the Department of Justice from invoking the anti-trust laws against it. Since 1890, the railroads have made four major attempts to secure an exemption from the anti-monopoly laws, but each time Congress clung stubbornly to the principle of competition as the most feasible method for protecting the public interest in rate-making. The Bulwinkle bill is the most ambitious attempt yet made to turn the making of railroad rates over to private monopolists, because not only are rate-making agreements to be legalized on railroads, but motor carriers and inland-water transportation companies are also to be free to agree on their rates. The power of the ICC to approve rate-making agreements is hedged about by the disarming but futile provision that such agreements shall "not unduly restrain competition." Of course, any agreement to fix rates is *per se* a restraint on competition. Whether the restraint is "undue" could not be soundly determined except by finding out whether some carriers would be willing to charge less. That cannot be ascertained under the present system because of the pressure that can be brought to bear upon individual carriers to go along with those desiring higher rates. Hence the provision "not unduly restrain competition" is mere window-dressing to make the public believe that its interests are protected. The railroad interests have denied that the Bulwinkle bill would give their industry an exemption from the anti-trust laws. But the best legal and economic opinion of experts in the Anti-Trust Division of the Department of Justice is that the bill would accomplish exactly that end. If the Bulwinkle bill is passed, there is certain to be a continuance of rail rates at levels which will effectively block the recovery of private business.

APPENDIX D

THE COOPERATIVE MOVEMENT

During the last quarter century the cooperative movement has enjoyed a remarkable growth. Today it is being vigorously put forward as a solution to the present ills of capitalism in the United States. Basically fallacious in its economic philosophy, it has acquired sufficient economic power to become a propaganda menace. At bottom, the cooperative movement is simply a technique for building the socialist state in America hidden behind the disarming word "cooperation." Cooperators use effectively such beguiling phrases as "cooperative democracy" and "the cooperative commonwealth" on people who do not perceive that the economic order championed by the cooperative brotherhood would, if it came into being, be nothing more than a socialist commonwealth in which political freedom would be quickly extinguished. Like Karl Marx, cooperators flay the profit system as exploitative and talk glibly about replacing it with the cooperative system. Profits in a capitalist system are not exploitative unless they are unfairly earned. Fairly earned, under free and fair competition, they represent a just reward for the taking of business risks. Unfairly earned, they do become an important factor in the breakdown of a capitalist economy in permanent unemployment. But the sound cure for profits unfairly earned is not the elimination of the profit system but the elimination of business and financial practices which make it possible for profits to be unfairly earned and to destroy productive power in a capitalist system. The profit system in a capitalist economy can be eliminated only on condition that the state assume the risks of investment and business enterprise and when the state does this it must have autocratic powers over the economic system. Hence profits in a capitalist economy can be eliminated only at the price of an autocratic state.

Now cooperators do not propose to eliminate the profit system in the present. For the present they propose that the profits of business shall be paid to the people through the people owning businesses. We now come to the central fallacy of cooperation. The form of business organization advocated by cooperators is monopoly. They will have no dealings with competition, which they condemn as wasteful and exploitative. Should the cooperative movement triumph, all business would be collectively owned by the people but each business would be organized into a monopoly. Obviously such a scheme would result in a terrific centralization of economic power in the hands of the few men who would direct the business of America. The fact that millions and millions of people had voting rights in this labyrinth of collectively owned monopolies and, theoretically, the power to control their corporate agents would not prevent the few men directing this vast centralization program from acting autocratically. One of the delusions of the corporate form of organization is that a wide diffusion of the ownership of voting

stock will bring corporate management under democratic control and keep that control functioning in the interests of the owners. Experience has demonstrated conclusively in the corporate field that the larger the corporation and the greater the diffusion of ownership the easier it is for corporate management to disregard ownership and act autocratically in the furtherance of its own particular interests. The enormous concentration of economic power which a fruition of the cooperative movement would put in the hands of a few men would be expressed directly in concentrated political power. Inevitably, under the cooperative commonwealth, the concentration of political power would result in the establishment of an autocratic state which, though it might be launched as the friend of the people, would in time become their oppressor. In this book we have constantly stressed the viewpoint that only where economic power in a capitalist system is decentralized and relatively dispersed is there an adequate safeguard against the collectivistic state and dictatorship. Only the existence of numerous competitive producers and distributors in a capitalist system offers the best hope of abundance for the people achieved within a framework of political freedom. One must not forget that no less an authority than Trotsky said that the Bolshevik revolution might have failed had it not been for the fact that cooperatives in Russia had already established such a helpful centralized control over the economic system in many parts.

We also stress the viewpoint that if the productive powers of American capitalism are adequately liberated the goal of the cooperative movement to multiply the owners of business enterprise can be as effectively achieved without the dangers of erecting an autocratic state. In such an economy the increase in productivity would enable millions of farmers and workers to become investors in businesses. As investors they would get profits, the same as they do in cooperatives. *But there would be this vital difference.* Business enterprise would be conducted on a competitive basis by numerous producers and distributors with economic power decentralized and dispersed—the indispensable condition which protects freedom while at the same time stimulating abundant production.

In the reform of American capitalism, cooperative enterprise must also be taken into account. The growth of this kind of enterprise has not been due to the efficiency of the cooperative plan. It has been largely due to special privileges conferred on cooperatives by government.

Cooperatives were originally local associations of farmers, fruit growers and the like, which acted as sales agents for members. With the growth of giantism and monopoly in industry, Congress sought to increase the bargaining power of the farmer against powerful combines on the buying side of the market. So farmers were given the right to get together in selling groups which were specifically *exempted from the anti-trust laws.* A combination of sellers is, of course, the elimination of competition among them. It is monopoly, but the fatal thinking in Congress which sanctioned monopoly in the selling of farm products as an antidote for the growth of monopoly in industry and distribution became a fixed pattern. Congress was to sanction monopoly in labor also

as an antidote for monopoly at the level of management in industry. Instead of enforcing the anti-trust laws and doing something about size in business, Congress drifted into the fatal philosophy of chartering monopoly in agriculture and labor to offset its existence in industry, where it is supposed not to exist. From such muddled thinking has come the crisis which confronts capitalism today in the United States. Today cooperatives are no longer local associations of farmers. On the agricultural front they have expanded into powerful national organizations which dominate the sale of certain agricultural products. On these products they have a monopolistic position in the market, and monopoly profits are used to promote more cooperative monopoly in the economic system. Cooperative monopoly is no remedy for any other kind of monopoly. Today cooperatives have invaded manufacturing, insurance, transportation, financing, oil-well drilling, petroleum refining, irrigation and other lines. Cooperation has expanded from local groups of farmers to interlocking and powerful groups of cooperative corporations, many of them doing business on a nation-wide scale. If American capitalism is to be successfully reformed, monopoly under the guise of cooperation must also be eradicated.

The growth of the cooperative movement in the last quarter century has been largely due to the government's exempting cooperatives from tax burdens which it has imposed on other business. Regular business has had to pay steadily mounting Federal taxes on its net profits. Today Federal taxes on the net profits of regular business take away a large part of them. But the cooperative corporation, by distributing its earnings in the form of stock or other evidences of equity, can keep in its treasury its total net earnings tax free. The ability of co-ops thus to accumulate tax-free capital for expansion is a large advantage over the business that must pay Federal taxes on its net earnings. Where cooperative corporations distribute their net earnings in cash, the investor receives more dividends than he can get in a business of which a large part of the net earnings is seized by the Federal government. In the case of consumer co-ops not engaged in production, the dividends received in cash by customer subscribers (actually investors) are not even taxable under the Federal income tax for individual incomes. In January 1942, Mr. A. G. Black, former Governor of the Farm Credit Administration, said in a speech delivered before the American Institute on Cooperation:

> "For example, tax exemption under certain conditions, if there is no change, will result *in a tremendous advantage to the cooperative form of organization.* . . . Under conditions of low taxes, of course, it is of some advantage, but when taxes are absorbing a large part of the earnings of private business, *the cooperative form of business really provides an enormous advantage.*"

As far back as 1929, one of the largest corporations in the world refining cane sugar found a way to shift from its corporate set-up to a tax-free cooperative. As a cooperative corporation it has paid no Federal taxes on its large earnings since 1929.

At the present time, when the Federal government is desperately looking for tax funds, other large private corporations are toying with the idea of converting to the cooperative form of business, and a recent report of the Committee on Small Business of the House on Cooperatives declares that "any normal corporation" can convert to a cooperative type by merely rearranging its charter and by-laws. If private business starts seceding from Federal taxes on net income via the cooperative route, the government would be forced to eliminate the tax-exemption privileges it so thoughtlessly bestowed upon cooperatives. But even if private business does not turn cooperative, there is no reason why cooperatives should continue to enjoy such privileges when the result of cooperation, if it succeeds, will be to destroy capitalism and with it democracy in America. For a number of years the American Socialist Party has particularly blessed the cooperative movement, and recently the official paper of this party urged co-ops to "get over their fear of a socialist label," pointing out that what co-ops are "doing and preaching" is exactly in line with its goal of a socialist state in America.

If the opportunity to produce abundance within a framework of freedom is to be preserved in America, government must act swiftly to stamp out monopoly everywhere, whether cooperative or private, and to restore competition to vigor in the economic system. Government alone can move quickly enough to free the productive powers of American capitalism in time to avoid the catastrophe of an authoritarian state. But in the rehabilitation of our capitalist economy, the cooperative movement must bear its fair share of reform. Cooperatives must be fairly taxed. Cooperative monopoly must be made as unlawful as private monopoly. Other special privileges bestowed on cooperatives by government must also be abolished. If fair competition is restored in American capitalism, the cooperative enterprise would not enjoy any advantages over private business. *Cooperative business would be fair competitive business.* But the cooperative enterprise would be deprived of its present privileged powers to substitute cooperative monopoly for private monopoly and to drive the economic system into an authoritarian state.

A competitive business order, in turn, will be certain to be more efficient than an economy controlled either by monopoly (private or cooperative) or by an authoritarian state. All monopoly becomes afflicted with lethargic management and labor, technological backwardness, high costs and low productivity. In an authoritarian state the inefficiencies of monopoly are *multiplied,* since government becomes a single vast monopoly. In contrast, competition is a self-enforcing system (provided government prevents its destruction) which both incites and compels management and labor to achieve low production costs, technological progress, and maximum output.

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